

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

☒ **EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

☐ **EXCHANGE ACT OF 1934**

Commission File Number: 001-37586



(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

47-4027764

(I.R.S. Employer Identification No.)

5255 Virginia Avenue

North Charleston

South Carolina

29406

(Address of principal executive offices)

(Zip code)

843-740-2300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (\$0.01 par value)	NGVT	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The registrant had 41,824,307 shares of common stock, \$0.01 par value, outstanding at October 28, 2019.

Ingevity Corporation

INDEX

	Page No.
<u>PART I - FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u> <u>for the Three and Nine Months Ended September 30, 2019 and 2018 (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> <u>for the Three and Nine Months Ended September 30, 2019 and 2018 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets at September 30, 2019 (Unaudited) and December 31, 2018</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u> <u>for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)</u>	<u>6</u>
<u>Notes to the Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>58</u>
<u>Item 4. Controls and Procedures</u>	<u>58</u>
<u>PART II - OTHER INFORMATION</u>	<u>60</u>
<u>Item 1. Legal Proceedings</u>	<u>60</u>
<u>Item 1A. Risk Factors</u>	<u>60</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>60</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>60</u>
<u>Item 5. Other Information</u>	<u>60</u>
<u>Item 6. Exhibits</u>	<u>61</u>
<u>SIGNATURES</u>	<u>62</u>

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INGEVITY CORPORATION

Condensed Consolidated Statements of Operations (Unaudited)

<i>In millions, except per share data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 359.9	\$ 311.2	\$ 989.5	\$ 855.0
Cost of sales	220.4	192.6	618.5	535.8
Gross profit	139.5	118.6	371.0	319.2
Selling, general and administrative expenses	40.7	34.5	122.3	96.5
Research and technical expenses	4.9	5.6	15.0	16.3
Restructuring and other (income) charges, net	1.7	—	2.0	(0.6)
Acquisition-related costs	1.3	—	24.9	4.3
Other (income) expense, net	1.4	2.5	(2.3)	2.7
Interest expense, net	12.1	7.9	36.3	21.8
Income (loss) before income taxes	77.4	68.1	172.8	178.2
Provision (benefit) for income taxes	17.5	16.4	33.4	38.5
Net income (loss)	59.9	51.7	139.4	139.7
Less: Net income (loss) attributable to noncontrolling interests	—	2.2	—	12.7
Net income (loss) attributable to Ingevity stockholders	\$ 59.9	\$ 49.5	\$ 139.4	\$ 127.0
Per share data				
Basic earnings (loss) per share attributable to Ingevity stockholders	\$ 1.42	\$ 1.18	\$ 3.33	\$ 3.02
Diluted earnings (loss) per share attributable to Ingevity stockholders	1.41	1.16	3.30	2.98

The accompanying notes are an integral part of these financial statements.

INGEVITY CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 59.9	\$ 51.7	\$ 139.4	\$ 139.7
Other comprehensive income (loss), net of tax:				
Foreign currency adjustments:				
Foreign currency translation adjustment	(22.9)	(3.6)	(29.0)	(6.5)
Unrealized gain (loss) on net investment hedges, net of tax provision (benefit) of \$1.6, zero, \$1.5, and zero	5.3	—	5.1	—
Total foreign currency adjustments, net of tax provision (benefit) of \$1.6, zero, \$1.5 and zero	(17.6)	(3.6)	(23.9)	(6.5)
Derivative instruments:				
Unrealized gain (loss), net of tax provision (benefit) of (\$0.2), \$0.1, (\$1.3) and \$0.3	(0.9)	0.1	(4.4)	0.8
Reclassifications of deferred derivative instruments (gain) loss, included in net income (loss), net of tax (provision) benefit of zero, (\$0.2), (\$0.1) and (\$0.2)	—	(0.3)	(0.5)	(0.5)
Total derivative instruments, net of tax provision (benefit) of (\$0.2), (\$0.1), (\$1.4) and \$0.1	(0.9)	(0.2)	(4.9)	0.3
Pension & other postretirement benefits:				
Unrealized actuarial gains (losses) and prior service (costs) credits, net of tax of zero for all periods	—	—	—	—
Reclassifications of net actuarial and other (gain) loss and amortization of prior service cost, included in net income, net of tax of zero for all periods	—	—	—	0.1
Total pension and other postretirement benefits, net of tax of zero for all periods	—	—	—	0.1
Other comprehensive income (loss), net of tax provision (benefit) of \$1.4, (\$0.1), \$0.1 and \$0.1	(18.5)	(3.8)	(28.8)	(6.1)
Comprehensive income (loss)	41.4	47.9	110.6	133.6
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	2.2	—	12.7
Comprehensive income (loss) attributable to Ingevity stockholders	\$ 41.4	\$ 45.7	\$ 110.6	\$ 120.9

The accompanying notes are an integral part of these financial statements.

INGEVITY CORPORATION

Condensed Consolidated Balance Sheets

In millions, except share and par value data

	September 30, 2019	December 31, 2018
	(Unaudited)	
Assets		
Cash and cash equivalents	\$ 75.6	\$ 77.5
Accounts receivable, net of allowance of \$0.4 million and \$0.4 million at September 30, 2019 and December 31, 2018, respectively	167.2	118.9
Inventories, net	210.2	191.4
Prepaid and other current assets	46.0	34.9
Current assets	499.0	422.7
Property, plant and equipment, net	641.9	523.8
Operating lease assets, net	55.8	—
Goodwill	416.1	130.7
Other intangibles, net	383.5	125.6
Deferred income taxes	2.4	2.9
Restricted investment	72.7	71.2
Other assets	47.4	38.3
Total Assets	\$ 2,118.8	\$ 1,315.2
Liabilities		
Accounts payable	\$ 107.5	\$ 92.9
Accrued expenses	34.8	36.7
Accrued payroll and employee benefits	23.6	42.0
Current operating lease liabilities	17.6	—
Notes payable and current maturities of long-term debt	22.6	11.2
Income taxes payable	2.7	0.5
Current liabilities	208.8	183.3
Long-term debt including finance lease obligations	1,294.4	741.2
Noncurrent operating lease liabilities	38.6	—
Deferred income taxes	107.8	36.9
Other liabilities	25.9	15.1
Total Liabilities	1,675.5	976.5
Commitments and contingencies (Note 15)		
Equity		
Preferred stock (par value \$0.01 per share; 50,000,000 shares authorized; zero issued and outstanding at September 30, 2019 and December 31, 2018)	—	—
Common stock (par value \$0.01 per share; 300,000,000 shares authorized; 42,672,491 and 42,331,913 issued; 41,817,412 and 41,693,261 outstanding at September 30, 2019 and December 31, 2018)	0.4	0.4
Additional paid-in capital	111.4	98.3
Retained earnings	452.9	313.5
Accumulated other comprehensive income (loss)	(46.5)	(17.7)
Treasury stock, common stock, at cost (855,079 shares at September 30, 2019; 638,652 shares at December 31, 2018)	(74.9)	(55.8)
Total Equity	443.3	338.7
Total Liabilities and Equity	\$ 2,118.8	\$ 1,315.2

The accompanying notes are an integral part of these financial statements.

INGEVITY CORPORATION
Condensed Consolidated Statements of Cash Flows (Unaudited)

<i>In millions</i>	Nine Months Ended September 30,	
	2019	2018
Cash provided by (used in) operating activities:		
Net income (loss)	\$ 139.4	\$ 139.7
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	61.4	42.1
Deferred income taxes	26.7	3.2
Restructuring and other (income) charges, net	2.0	(0.6)
Share-based compensation	11.0	10.1
Pension and other postretirement (benefit) costs	1.0	1.4
Other non-cash items	8.7	8.5
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(34.5)	(24.6)
Inventories, net	0.4	(30.3)
Prepaid and other current assets	(2.8)	(4.7)
Planned major maintenance outage	(5.5)	(5.1)
Accounts payable	2.2	21.6
Accrued expenses	(5.8)	6.6
Accrued payroll and employee benefits	(18.8)	(6.5)
Income taxes payable	(5.1)	7.5
Changes in other operating assets and liabilities, net	9.9	(2.5)
Net cash provided by (used in) operating activities	\$ 190.2	\$ 166.4
Cash provided by (used in) investing activities:		
Capital expenditures	\$ (79.8)	\$ (56.6)
Payments for acquired businesses, net of cash acquired	(537.9)	(315.5)
Other investing activities, net	(4.7)	(4.2)
Net cash provided by (used in) investing activities	\$ (622.4)	\$ (376.3)
Cash provided by (used in) financing activities:		
Proceeds from revolving credit facility	\$ 789.0	\$ —
Proceeds from long-term borrowings	375.0	300.0
Payments on revolving credit facility	(596.0)	—
Payments on long-term borrowings	(117.8)	—
Debt issuance costs	(1.8)	(7.1)
Borrowings (repayments) of notes payable and other short-term borrowings, net	2.2	0.7
Tax payments related to withholdings on vested equity awards	(14.3)	(2.1)
Proceeds and withholdings from share-based compensation plans, net	3.7	1.8
Repurchases of common stock under publicly announced plan	(6.4)	(18.1)
Acquisition of noncontrolling interest	—	(80.0)
Noncontrolling interest distributions	—	(15.3)
Net cash provided by (used in) financing activities	\$ 433.6	\$ 179.9
Increase (decrease) in cash, cash equivalents and restricted cash	1.4	(30.0)
Effect of exchange rate changes on cash	(2.3)	(0.1)
Change in cash, cash equivalents, and restricted cash ⁽¹⁾	(0.9)	(30.1)
Cash, cash equivalents, and restricted cash at beginning of period	77.5	87.9
Cash, cash equivalents, and restricted cash at end of period ⁽¹⁾	\$ 76.6	\$ 57.8

⁽¹⁾ Includes restricted cash of \$1.0 million and \$0.3 million and cash and cash equivalents of \$75.6 million and \$57.5 million as of September 30, 2019 and 2018, respectively. Restricted cash is included within "Prepaid and Other Current Assets" within the condensed consolidated balance sheets.

Supplemental cash flow information:

Cash paid for interest, net of capitalized interest	\$ 40.1	\$ 22.6
Cash paid for income taxes, net of refunds	12.6	27.6
Purchases of property, plant and equipment in accounts payable	8.3	8.7

Leased assets obtained in exchange for new finance lease liabilities	—	—
Leased assets obtained in exchange for new operating lease liabilities	3.2	—

The accompanying notes are an integral part of these financial statements.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Note 1: Background

Ingevity Corporation ("Ingevity," "the Company," "we," "us," or "our") is a leading global manufacturer of specialty chemicals and high performance activated carbon materials. We provide innovative solutions to meet our customers' unique and demanding requirements through proprietary formulated products. We report in two business segments, Performance Materials and Performance Chemicals.

Our Performance Materials segment consists of our automotive technologies and process purifications product lines. Performance Materials manufactures products in the form of powder, granular, extruded pellets, extruded honeycombs, and activated carbon sheets. Automotive technologies products are sold into gasoline vapor emission control applications within the automotive industry, while process purification products are sold into the food, water, beverage, and chemical purification industries.

Our Performance Chemicals segment consists of our pavement technologies, oilfield technologies, industrial specialties, and engineered polymers (acquired in 2019; see Note 4 for more information) product lines. Performance Chemicals manufactures products derived from crude tall oil ("CTO") and lignin extracted from the kraft paper making process as well as caprolactone monomers and derivatives derived from cyclohexanone and hydrogen peroxide. Performance Chemicals products serve as critical inputs used in a variety of high performance applications, including pavement preservation, pavement adhesion promotion, and warm mix paving (pavement technologies product line), oil well service additives, oil production, and downstream application chemicals (oilfield technologies product line), printing inks, adhesives, agrochemicals, lubricants, and industrial intermediates (industrial specialties product line), coatings, resins, elastomers, adhesives, and bio-plastics (engineered polymers product line).

Note 2: Basis of Consolidation and Presentation

These unaudited Condensed Consolidated Financial Statements reflect the consolidated operations of the Company and have been prepared in accordance with United States Securities and Exchange Commission ("SEC") interim reporting requirements. Accordingly, the accompanying Condensed Consolidated Financial Statements do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for full financial statements and should be read in conjunction with the Annual Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016, collectively referred to as the "Annual Consolidated Financial Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report").

In the opinion of management, the Condensed Consolidated Financial Statements contain all adjustments, which include only normal recurring adjustments, necessary to fairly state the condensed consolidated results for the interim periods presented. The consolidated results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Certain prior year amounts have been reclassified to conform with the current year's presentation.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Note 3: New Accounting Guidance

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification") is the sole source of authoritative GAAP other than SEC issued rules and regulations that apply only to SEC registrants. The FASB issues an Accounting Standards Update ("ASU") to communicate changes to the Codification. We consider the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are not expected to have a material impact on the consolidated financial statements.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13 "Fair Value Measurement (Topic 820) Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." This ASU eliminates, amends, and adds disclosure requirements for fair value measurements. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We adopted this standard on January 1, 2019. The impact of adoption did not have a material impact on our Condensed Consolidated Financial Statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07 "Compensation-Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting." This ASU provides for a single accounting model for all share-based payments, with the employee based guidance now applying to nonemployee share-based transactions. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We adopted this standard on January 1, 2019. The impact of adoption did not have a material impact on our Condensed Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)." Under the new guidance, lessees are required to recognize for all leases (with the exception of short-term leases) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Since the issuance of ASU 2016-02, the FASB issued several amendments that clarify certain points in Topic 842, including ASU 2018-20 ("Lease (Topic 842): Narrow-Scope Improvements for Lessors"), ASU 2018-01 ("Land Easement Practical Expedient"), ASU 2018-10 ("Codification Improvements"), ASU 2018-11 ("Targeted Improvements") and ASU 2019-01 ("Codification Improvements"). ASU 2016-02 and all subsequent amendments will herein be referred to as ASC 842. We adopted ASC 842 utilizing the modified retrospective approach as of January 1, 2019. The modified retrospective approach we selected provides a method of transition allowing for the recognition of existing leases as of the beginning of the period of adoption (i.e. January 1, 2019), and which does not require the adjustment of comparative periods.

We have elected the practical expedient package upon transition that does not require reassessment of prior conclusions related to contracts containing a lease, lease classification, and initial direct costs for any leases that existed at the period of adoption of ASC 842. We also adopted the practical expedient to apply hindsight in determining the lease term; we chose to account for lease and non-lease components together as a single component for all lease asset classes; and we elected the practical expedient related to land easements allowing us to carry-forward our current accounting treatment for land easements on existing agreements. We include the option to extend or terminate a lease when it is reasonably certain that we will exercise the option. In addition, we elected the accounting policy to not apply the balance sheet recognition criteria required in ASC 842 to leases with an initial lease term of twelve months or less by class of underlying asset for all lease asset classes. Payments for these leases are recognized on a straight-line basis over the lease term. As a lessee, most of our leases under prior guidance ASC 840 "Leases" were classified as operating leases, and therefore, were not recorded on the condensed consolidated balance sheet but were recorded as expense in the condensed consolidated statement of operations as incurred. We cataloged our existing lease contracts and implemented changes to our systems to perform the lease accounting and reporting under the new guidance going forward.

The adoption of ASC 842 resulted in the recognition of lease assets and liabilities. Our existing capital leases were accounted for as finance leases upon adoption of ASC 842. Additionally, we do not expect a significant impact in the timing of expense recognition based on the classification of leases as either operating or financing.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

In accordance with ASC 842, the impact of adoption on our condensed consolidated balance sheet was as follows:

<i>In millions</i>	Balance at December 31, 2018	Adjustments	Balance at January 1, 2019
Assets			
Prepaid and other current assets	\$ 34.9	\$ (0.2) ⁽¹⁾	\$ 34.7
Operating lease assets, net	—	64.6 ⁽²⁾	64.6
Liabilities			
Current operating lease liabilities	—	18.4 ⁽³⁾	18.4
Noncurrent operating lease liabilities	—	46.3 ⁽⁴⁾	46.3
Other liabilities	15.1	(0.3) ⁽⁵⁾	14.8

(1) Represents prepaid rent reclassified to operating lease assets.

(2) Represents capitalization of operating lease assets and straight-line rent accrual.

(3) Represents recognition of the current portion of operating lease liabilities.

(4) Represents recognition of the noncurrent operating lease liabilities.

(5) Represents accrued rent reclassified to operating lease liabilities.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15 "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." This ASU requires companies to defer specific implementation costs incurred in a Cloud Computing Arrangement ("CCA") that are often expensed as incurred under current GAAP, and recognize the expense over the noncancellable term of the CCA. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Although we are still evaluating the impact of this new standard, we do not believe that the adoption will materially impact our Condensed Consolidated Financial Statements and related disclosures.

In August 2018, the FASB issued ASU 2018-14 "Compensation — Retirement Benefits — Defined Benefit Plans — General (Topic 715-20): Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." This ASU amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The new standard is effective for fiscal years ending after December 15, 2020. Although we are still evaluating the impact of this new standard, we do not believe that the adoption will materially impact our Condensed Consolidated Financial Statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The new standard is effective for fiscal years beginning after December 15, 2019. Although we are still evaluating the impact of this new standard, we do not believe that the adoption will materially impact our Condensed Consolidated Financial Statements and related disclosures.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Note 4: Acquisitions

Perstorp Holding AB's Caprolactone Business

On December 10, 2018, we entered into an agreement for the sale and purchase of Perstorp UK Ltd. (the “Caprolactone Agreement”) with Perstorp Holding AB, a company registered in Sweden that develops, manufactures, and sells specialty chemicals (the “Seller”). Pursuant to the Caprolactone Agreement, we agreed to purchase the shares held by the Seller in Perstorp UK Ltd., including the Seller’s entire caprolactone business (“Caprolactone Business”), in exchange for €570.9 million, less assumed debt and other miscellaneous transaction costs, as further defined in the Caprolactone Agreement (the “Purchase Price”), plus interest accrued on the Purchase Price (herein referred to as the “Caprolactone Acquisition”).

On February 13, 2019, pursuant to the terms and conditions set forth in the Caprolactone Agreement, we completed the Caprolactone Acquisition for an aggregate purchase price of €578.9 million (\$652.5 million), less assumed debt of €100.4 million (\$113.1 million). At closing, the assumed debt was settled with an affiliate of the Seller. The Caprolactone Acquisition is being integrated into our Performance Chemicals segment and included within our engineered polymers product line. Our revolving credit facility was utilized as the primary source of funds, along with available cash on hand, to fund the Caprolactone Acquisition.

The Caprolactone Acquisition contributed Net sales of \$32.4 million and \$90.9 million and Income (loss) before income taxes of \$5.8 million and \$8.1 million, for the three and nine months ended September 30, 2019, respectively, to the consolidated operating results of Ingevity.

Preliminary Purchase Price Allocation

The Caprolactone Acquisition is considered an acquisition of a business under business combinations accounting guidance, and therefore we applied acquisition accounting. Acquisition accounting requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The aggregate purchase price noted above was allocated to the major categories of assets acquired and liabilities assumed based upon their estimated fair values at the acquisition date using primarily Level 2 and Level 3 inputs. These Level 2 and Level 3 valuation inputs include an estimate of future cash flows and discount rates. Additionally, estimated fair values are based, in part, upon outside appraisals for certain assets, including specifically-identified intangible assets. See Note 6 for additional explanation of Level 2 and Level 3 inputs.

The allocation of the purchase price to the assets acquired and liabilities assumed, including the residual amount allocated to goodwill, is based upon preliminary information and is subject to change within the measurement period (up to one year from the acquisition date) as additional information concerning final asset and liability valuations is obtained. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to uncertain tax positions taken by the entity prior to the acquisition, which are currently being evaluated. During the measurement period, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in revised estimated values of those assets or liabilities as of that date, we will revise the preliminary purchase price allocation. The effect of measurement period adjustments to the estimated fair values will be reflected as if the adjustments had been completed on the acquisition date. The impact of all changes that do not qualify as measurement period adjustments will be included in current period earnings.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Preliminary Purchase Price Allocation

<i>In millions</i>	Weighted Average Amortization Period	Fair Value
Cash and cash equivalents	\$	0.7
Accounts receivable		15.7
Inventories ⁽¹⁾		21.7
Prepaid and other current assets		1.3
Property, plant and equipment ⁽⁵⁾		86.3
Operating lease assets, net ⁽⁵⁾		1.8
Intangible assets ⁽²⁾		
Customer relationships	17 years	159.0
Developed technology	12 years	64.8
Brands	17 years	67.0
Non-compete agreement	3 years	0.5
Goodwill ^{(3) (5)}		297.5
Other assets		1.3
Total fair value of assets acquired	\$	717.6
Accounts payable		13.6
Accrued expenses ⁽⁵⁾		2.3
Long-term debt		113.1
Operating lease liabilities ⁽⁵⁾		1.7
Deferred income taxes ⁽⁵⁾		47.5
Total fair value of liabilities assumed	\$	178.2
Cash and restricted cash acquired ⁽⁴⁾		1.5
	Total cash paid, less cash and restricted cash acquired \$	537.9

- (1) Fair value of finished good inventories acquired included a step-up in the value of approximately \$8.4 million, all of which was expensed in the three months ended March 31, 2019. The expense is included in "Cost of sales" on the condensed consolidated statement of operations. Inventories are accounted for on a first-in, first-out basis of accounting.
- (2) The aggregate amortization expense was \$3.7 million and \$9.5 million for the three and nine months ended September 30, 2019. Estimated amortization expense is as follows: 2019 - \$14.1 million, 2020 - \$18.5 million, 2021 - \$18.5 million, 2022 - \$18.4 million and 2023 - \$18.4 million. The estimated pre-tax amortization expense may fluctuate due to changes in foreign currency.
- (3) Goodwill consists of estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. See Note 9 for further information regarding our allocation of goodwill among our reportable segments. None of the acquired goodwill will be deductible for income tax purposes.
- (4) Cash and cash equivalents and restricted cash were \$0.7 million and \$0.8 million, respectively, at closing. Restricted cash is included in "Prepaid and other current assets" on the condensed consolidated balance sheet.
- (5) Since the closing, we completed a full physical asset inspection and assessment of the property, plant and equipment acquired. We identified \$2.5 million of assets, which were included in the original valuation that were no longer in use. Reducing the asset value also required a reduction of the previously established deferred tax liability by \$0.4 million. The net adjustment resulted in an increase to Goodwill of \$2.1 million. Since the acquisition, we obtained all outstanding lease contracts for the Caprolactone Business, and completed our assessment of the leases under ASC 842. The result was the identification of operating lease assets, current lease liabilities, and noncurrent lease liabilities at the date of acquisition in the amounts of \$1.8 million, \$0.1 million, and \$1.7 million, respectively.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Georgia Pacific's Pine Chemical Business

On March 8, 2018, pursuant to the terms and conditions set forth in the asset purchase agreement with Georgia-Pacific Chemicals LLC, Georgia-Pacific LLC (together with Georgia-Pacific Chemicals LLC, "GP") and Ingevity Arkansas, LLC, a wholly-owned subsidiary of Ingevity, we completed the acquisition (the "Pine Chemical Acquisition") of substantially all the assets primarily used in GP's pine chemical business (the "Pine Chemical Business") for an aggregate purchase price of \$315.5 million. The aggregate purchase price was finalized during the third quarter of 2018 with a final payment to GP in the amount of \$0.5 million to finalize the net working capital acquired on March 8, 2018. The Pine Chemical Business included the assets and facilities related to tall oil fractionation operations and the production or modification of tall oil fatty acids, tall oil rosins, rosin derivatives and formulated products. In addition, on March 8, 2018, we entered into a 20-year, market-based CTO supply contract with certain of GP's paper mill operations.

The Pine Chemical Business was integrated into our Performance Chemicals segment and has been included within our results of operations since March 8, 2018. Although the integration was not complete, a substantial portion of the Pine Chemical Business was integrated into our existing Performance Chemicals operations as of September 30, 2018. As a result, we were no longer able to separate net sales and operating performance of the Pine Chemical Acquisition from our existing Performance Chemicals' operating results.

Purchase Price Allocation

The following table summarizes the consideration paid for the Pine Chemical Business and the assets acquired and liabilities assumed:

Purchase Price Allocation		
<i>In millions</i>	Weighted Average Amortization Period	Fair Value
Accounts receivable		\$ 16.2
Inventories ⁽¹⁾		9.4
Property, plant and equipment		39.3
Intangible assets ⁽²⁾		
Patents	12 years	1.9
Non-compete agreement	3 years	2.2
Customer relationships	11 years	129.0
Goodwill ⁽³⁾		118.7
Other assets		0.1
Total fair value of assets acquired		316.8
Accounts payable		0.8
Accrued expenses		0.5
Total fair value of liabilities assumed		\$ 1.3
	Total cash paid \$	315.5

(1) Fair value of finished goods inventories acquired included a step-up in the value of approximately \$1.4 million, of which zero and \$1.4 million was expensed in the three and nine months ended September 30, 2018, respectively. The expense was included in "Cost of sales" on the condensed consolidated statement of operations.

(2) For the three months ended September 30, 2019 and 2018, the aggregate amortization expense was \$3.2 million and \$3.2 million, respectively, and for the nine months ended September 30, 2019 and 2018, the aggregate amortization expense was approximately \$9.5 million and \$7.4 million, respectively. Estimated amortization expense is as follows: 2019 - \$12.7 million, 2020 - \$12.7 million, 2021 - \$12.6 million, 2022 - \$11.8 million and 2023 - \$11.8 million.

(3) Goodwill largely consists of expected cost synergies and economies of scale resulting from the business combination. We expect the full amount to be deductible for income tax purposes.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Unaudited Pro Forma Financial Information

The following unaudited pro forma results of operations assume that the Caprolactone Acquisition as well as the acquisition of the Pine Chemical Business occurred at the beginning of the periods presented. These unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations would have been if the acquisitions occurred at the beginning of the periods presented, nor are they indicative of future results of operations. The pro forma results include additional interest expense on the debt issued to finance the acquisition, amortization and depreciation expense based on the estimated fair value and useful lives of intangible assets and tangible assets, and related tax effects. The pro forma results presented below are adjusted for the removal of Acquisition and other related costs for the three and nine months ended September 30, 2019 of \$1.3 million and \$33.3 million, respectively, and for the three and nine months ended September 30, 2018 of zero and \$5.7 million, respectively.

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 359.9	\$ 354.2	\$ 1,007.2	\$ 1,006.1
Income (loss) before income taxes	78.7	73.0	205.7	196.7
Diluted earnings (loss) per share attributable to Ingevity stockholders	\$ 1.43	\$ 1.26	\$ 3.92	\$ 3.35

Acquisition and other related costs

Costs incurred to complete and integrate the acquisitions noted above into our Performance Chemicals segment are expensed as incurred on our condensed consolidated statement of operations. The following table summarizes the costs incurred associated with these combined activities.

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Legal and professional service fees	\$ 1.3	\$ —	\$ 12.2	\$ 4.3
Loss on hedging purchase price	—	—	12.7	—
Acquisition-related costs	\$ 1.3	\$ —	24.9	4.3
Inventory fair value step-up amortization ⁽¹⁾	—	—	8.4	1.4
Acquisition and other-related costs	\$ 1.3	\$ —	\$ 33.3	\$ 5.7

(1) Included within "Cost of sales" on the condensed consolidated statement of operations.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Note 5: Revenues

Ingevity's operating segments are (i) Performance Materials and (ii) Performance Chemicals. A description of both operating segments is included in Note 1.

Disaggregation of Revenue

The following table presents our Net sales disaggregated by product line.

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>Automotive Technologies product line</i>	\$ 120.5	\$ 86.6	\$ 334.1	\$ 258.6
<i>Process Purification product line</i>	9.7	9.7	28.3	29.3
Performance Materials segment	\$ 130.2	\$ 96.3	\$ 362.4	\$ 287.9
<i>Oilfield Technologies product line</i>	27.6	32.5	86.5	84.0
<i>Pavement Technologies product line</i>	69.8	68.1	152.9	152.2
<i>Industrial Specialties product line</i>	99.9	114.3	296.8	330.9
<i>Engineered Polymers product line⁽¹⁾</i>	32.4	—	90.9	—
Performance Chemicals segment	\$ 229.7	\$ 214.9	\$ 627.1	\$ 567.1
Net sales	<u>\$ 359.9</u>	<u>\$ 311.2</u>	<u>\$ 989.5</u>	<u>\$ 855.0</u>

(1) Engineered Polymers product line was acquired on February 13, 2019; see Note 4 for more information.

The following table presents our Net sales disaggregated by geography, based on the delivery address of our customer.

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
North America	\$ 224.9	\$ 220.6	\$ 623.8	\$ 587.3
Asia Pacific	76.8	45.0	193.7	121.9
Europe, Middle East and Africa	51.6	40.5	155.4	128.8
South America	6.6	5.1	16.6	17.0
Net sales	<u>\$ 359.9</u>	<u>\$ 311.2</u>	<u>\$ 989.5</u>	<u>\$ 855.0</u>

Contract Balances

The following table provides information about contract assets and contract liabilities from contracts with customers. The contract assets primarily relate to our rights to consideration for products produced but not billed at the reporting date on contracts with certain customers. The contract assets are recognized as accounts receivables when the rights become unconditional and the customer has been billed. Contract liabilities represent obligations to transfer goods to a customer for which we have received consideration from our customer. For all periods presented we had no contract liabilities.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

<i>In millions</i>	Contract Asset⁽¹⁾	
	September 30, 2019	September 30, 2018
Beginning balance	\$ 5.1	\$ 4.4
Contract asset additions	11.8	12.3
Reclassification to accounts receivable, billed to customers	(10.0)	(11.9)
Ending balance	<u>\$ 6.9</u>	<u>\$ 4.8</u>

(1) Included within "Prepaid and other current assets" on the condensed consolidated balance sheet.

Note 6: Financial Instruments, Risk Management, and Fair Value Measurements

Net Investment Hedges

Net investment hedges are defined as derivative or non-derivative instruments designated as and used to hedge the foreign currency exposure of the net investment in certain foreign operations. The net of the change in the hedge instrument and the item being hedged against for qualifying net investment hedges is reported as a component of the foreign currency adjustments ("CTA") within Accumulated other comprehensive income ("AOCI") on the condensed consolidated balance sheet. The gains (losses) on net investment hedges are reclassified to earnings only when the related CTA are required to be reclassified, usually upon sale or liquidation of the investment.

During the second quarter of 2019, we entered into a fixed-to-fixed cross-currency interest rate swap with a notional amount of \$141.3 million and a maturity date of July 2023. We designated the swap to hedge a portion of our net investment in a euro functional currency denominated subsidiary against foreign currency fluctuations. This contract involves the exchange of fixed U.S. dollars with fixed euro interest payments periodically over the life of the contract and an exchange of the notional amount at maturity. This effectively converts a portion of our U.S. dollar denominated fixed-rate debt from a rate of 3.96 percent to euro denominated fixed-rate debt at a rate of 1.41 percent. Any difference between the fixed interest rate between the U.S. dollar denominated debt to euro denominated debt is recorded to as interest income on the condensed consolidated statements of operations. The fair value of the fixed-to-fixed cross currency interest rate swap was an asset (liability) of \$6.6 million at September 30, 2019. During the three and nine months ending September 30, 2019 we recognized net interest income associated with this financial instrument of \$0.9 million and \$1.5 million, respectively.

Cash Flow Hedges

Foreign Currency Exchange Risk Management

We manufacture and sell our products in several countries throughout the world and, thus, we are exposed to changes in foreign currency exchange rates. To manage the volatility relating to these exposures, we net the exposures on a consolidated basis to take advantage of natural offsets. To manage the remaining exposure, from time to time, we utilize forward currency exchange contracts and zero cost collar option contracts to minimize the volatility to earnings and cash flows resulting from the effect of fluctuating foreign currency exchange rates on export sales denominated in foreign currencies (principally the euro). These contracts are generally designated as cash flow hedges. Designated cash flow hedges entered to minimize foreign currency exchange risk of forecasted revenue transactions are recorded to "Net sales" on the consolidated statement of operations when the forecasted transaction occurs. As of September 30, 2019, there were no open foreign currency derivative contracts. The fair value of the designated foreign currency hedge contracts was an asset (liability) of zero and \$0.2 million at September 30, 2019 and December 31, 2018, respectively.

Commodity Price Risk Management

Certain energy sources used in our manufacturing operations are subject to price volatility caused by weather, supply and demand conditions, economic variables, and other unpredictable factors. This volatility is primarily related to the market pricing of natural gas. To mitigate expected fluctuations in market prices and the volatility to earnings and cash flow resulting from changes to pricing of natural gas purchases, from time to time, we will enter into swap contracts and zero cost collar option contracts and designate these contracts as cash flow hedges. As of September 30, 2019, we had 1.3 million and 0.3 million mmBTUS (millions of British Thermal Units) in aggregate notional volume of outstanding natural gas commodity swap contracts and zero cost collar

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

option contracts, respectively. Designated commodity cash flow hedge gains or losses recorded in AOCI are recognized in "Cost of sales" on the condensed consolidated statements of operations when the inventory is sold. As of September 30, 2019, open commodity contracts hedge forecasted transactions until September 2020. The fair value of the outstanding designated natural gas commodity hedge contracts as of September 30, 2019 and December 31, 2018 was an asset (liability) of \$(0.4) million and zero, respectively.

Interest Rate Risk Management

Our policy is to manage interest expense using a mix of fixed and variable rate debt. To manage interest rate risk effectively, from time to time, we may enter into cash flow interest rate derivative instruments, which can consist of forward starting swaps and treasury locks. In all cases, the notional amount of the interest rate swap agreements is equal to or less than the designated debt being hedged. Designated interest rate cash flow hedge gains or losses recorded in AOCI are recognized in "Interest expense, net" on the condensed consolidated statements of operations on a straight-line basis over the remaining maturity of the underlying debt. These instruments are designated as cash flow hedges.

During the second quarter of 2019, we entered into an interest rate swap with a notional amount of \$141.3 million to manage the variability of cash flows in the interest rate payments associated with our existing LIBOR-based interest payments, effectively converting \$141.3 million of our floating rate debt to a fixed rate. In accordance with the terms of this instrument we receive floating rate interest payments based upon three-month U.S. dollar LIBOR and in return are obligated to pay interest at a fixed rate of 3.96% until July 2023. The fair value of the interest rate swap was an asset (liability) of \$(5.0) million at September 30, 2019.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Effect of Cash Flow and Net Investment Hedge Accounting on AOCI

	Amount of Gain (Loss) Recognized in AOCI		Amount of Gain (Loss) Reclassified from AOCI into Net income		Location of Gain (Loss) Reclassified from AOCI into Net income
	Three Months Ended September 30,				
<i>In millions</i>	2019	2018	2019	2018	
Cash flow hedging derivatives					
Currency exchange contracts	\$ —	\$ 0.1	\$ —	\$ 0.7	Net sales
Natural gas contracts	(0.1)	0.1	—	—	Cost of sales
Interest rate swap contracts	(0.9)	—	—	—	Interest expense, net
Total	<u>\$ (1.0)</u>	<u>\$ 0.2</u>	<u>\$ —</u>	<u>\$ 0.7</u>	
	Nine Months Ended September 30,				
	2019	2018	2019	2018	
Cash flow hedging derivatives					
Currency exchange contracts	\$ —	\$ 0.9	\$ —	\$ 0.6	Net sales
Natural gas contracts	(0.7)	0.2	0.6	0.1	Cost of sales
Interest rate swap contracts	(5.0)	—	—	—	Interest expense, net
Total	<u>\$ (5.7)</u>	<u>\$ 1.1</u>	<u>\$ 0.6</u>	<u>\$ 0.7</u>	
	Amount of Gain (Loss) Recognized in AOCI		Amount of Gain (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing)		Location of Gain or (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing)
	Three Months Ended September 30,				
<i>In millions</i>	2019	2018	2019	2018	
Net investment hedging derivatives					
Currency exchange contracts ⁽¹⁾	\$ 6.8	\$ —	\$ 0.9	\$ —	Interest expense, net
Total	<u>\$ 6.8</u>	<u>\$ —</u>	<u>\$ 0.9</u>	<u>\$ —</u>	
	Nine Months Ended September 30,				
	2019	2018	2019	2018	
Net investment hedging derivatives					
Currency exchange contracts ⁽¹⁾	\$ 6.6	\$ —	\$ 1.5	\$ —	Interest expense, net
Total	<u>\$ 6.6</u>	<u>\$ —</u>	<u>\$ 1.5</u>	<u>\$ —</u>	

(1) Reclassifications from AOCI to Net Income were zero for all periods presented. Gains and losses would be reclassified from AOCI to Other (income) expense, net.

Within the next twelve months, we expect to reclassify \$0.4 million of losses from AOCI to earnings, before taxes.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Fair-Value Measurements

We have categorized our assets and liabilities that are recorded at fair value, based on the priority of the inputs to the valuation technique, into a three-level fair-value hierarchy. The fair-value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets and liabilities fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair-value measurement of the instrument. The carrying value of our financial instruments: cash and cash equivalents, other receivables, other payables and accrued liabilities, approximate their fair values due to the short-term nature of these financial instruments.

Recurring Fair-Value Measurements

The following information is presented for assets and liabilities that are recorded in the condensed consolidated balance sheets at fair value measured on a recurring basis. Derivative assets and liabilities are recorded on our condensed consolidated balance sheets at fair value and are presented on a gross basis. There were no transfers of assets and liabilities that are recorded at fair value between Level 1 and Level 2 during the periods reported. There were no non-recurring fair value measurements in the condensed consolidated balance sheets as of September 30, 2019 or December 31, 2018.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

<i>In millions</i>	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
September 30, 2019				
Assets:				
Equity securities ⁽⁴⁾	\$ 0.4	\$ —	\$ —	\$ 0.4
Net investment hedge ⁽⁵⁾	—	6.6	—	6.6
Deferred compensation plan investments ⁽⁶⁾	1.9	—	—	1.9
Total assets	\$ 2.3	\$ 6.6	\$ —	\$ 8.9
Liabilities:				
Deferred compensation arrangement ⁽⁶⁾	\$ 8.7	\$ —	\$ —	\$ 8.7
Separation-related reimbursement awards ⁽⁷⁾	0.1	—	—	0.1
Natural gas contracts ⁽⁷⁾	—	0.4	—	0.4
Interest rate swap contracts ⁽⁹⁾	—	5.0	—	5.0
Total liabilities	\$ 8.8	\$ 5.4	\$ —	\$ 14.2
December 31, 2018				
Assets:				
Equity securities ⁽⁴⁾	\$ 0.4	\$ —	\$ —	\$ 0.4
Currency exchange contracts ⁽⁴⁾	—	0.2	—	0.2
Natural gas contracts ⁽⁴⁾	—	0.1	—	0.1
Deferred compensation plan investments ⁽⁶⁾	1.3	—	—	1.3
Total assets	\$ 1.7	\$ 0.3	\$ —	\$ 2.0
Liabilities:				
Deferred compensation arrangement ⁽⁶⁾	\$ 4.6	\$ —	\$ —	\$ 4.6
Separation-related reimbursement awards ⁽⁷⁾	0.1	—	—	0.1
Currency exchange contracts ⁽⁸⁾	—	3.9	—	3.9
Natural gas contracts ⁽⁹⁾	—	0.1	—	0.1
Total liabilities	\$ 4.7	\$ 4.0	\$ —	\$ 8.7

(1) Quoted prices in active markets for identical assets.

(2) Quoted prices for similar assets and liabilities in active markets.

(3) Significant unobservable inputs.

(4) Included within "Prepaid and other current assets" on the condensed consolidated balance sheet.

(5) Included within "Other assets" on the condensed consolidated balance sheet.

(6) Consists of a deferred compensation arrangement, through which we hold various investment securities, recognized on our balance sheets. Both the asset and liability are recorded at fair value, and are included within "Other assets" and "Other liabilities" on the condensed consolidated balance sheets, respectively.

(7) Included within "Accrued expenses" on the condensed consolidated balance sheet.

(8) At December 31, 2018, this amount represented a non-designated foreign currency derivative associated with the purchase price of our acquisition of the Caprolactone Business, which was settled at the closing of the acquisition for a loss of \$16.6 million. The expense recognized in Acquisition-related costs on the condensed consolidated statements of operations during the three and nine months ended September 30, 2019 was zero and \$12.7 million, respectively. See Note 4 for more information.

(9) Included within "Other liabilities" on the condensed consolidated balance sheet.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Equity Securities

Our investments in equity securities with a readily determinable fair value totaled \$0.4 million at both September 30, 2019 and December 31, 2018. The net realized gain/(loss) recognized during the three and nine months ended September 30, 2019 and 2018 was zero. The unrealized gain/(loss) was zero for both the three and nine months ended September 30, 2019 and the unrealized gain/(loss) was zero and \$(0.1) million for the three and nine months ended September 30, 2018, respectively. The aggregate carrying value of investments in equity securities where fair value is not readily determinable totaled \$1.5 million as of both September 30, 2019 and December 31, 2018. There were no adjustments to the carrying value of the not readily determinable investments for impairment or observable price changes for the period ended September 30, 2019.

Restricted Investment

At September 30, 2019, the book value of our restricted investment, which is accounted for as held to maturity and therefore held at amortized costs, was \$72.7 million, and the fair value was \$74.6 million, based on Level 1 inputs.

Debt Obligations

At September 30, 2019, the book value of finance lease obligations was \$80.0 million and the fair value was \$102.7 million. The fair value of our finance lease obligations is based on the period-end quoted market prices for the obligations, using Level 2 inputs.

The carrying amount, excluding debt issuance fees, of our variable interest rate long-term debt was \$944.2 million as of September 30, 2019. The carrying value is a reasonable estimate of the fair value of the outstanding debt based on the variable interest rate of the debt.

At September 30, 2019, the book value of our fixed rate debt was \$300.0 million, and the fair value was \$300.9 million, based on Level 2 inputs.

Note 7: Inventories, net

<i>In millions</i>	September 30, 2019	December 31, 2018
Raw materials	\$ 44.2	\$ 36.5
Production materials, stores and supplies	21.5	17.5
Finished and in-process goods	154.5	144.7
Subtotal	220.2	198.7
Less: adjustment of inventories to LIFO basis	(10.0)	(7.3)
Inventories, net	\$ 210.2	\$ 191.4

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Note 8: Property, Plant and Equipment, net

<i>In millions</i>	September 30, 2019	December 31, 2018
Machinery and equipment	\$ 932.5	\$ 857.2
Buildings and leasehold improvements	108.5	113.1
Land and land improvements	18.9	19.6
Construction in progress	125.2	71.2
Total cost	1,185.1	1,061.1
Less: accumulated depreciation	(543.2)	(537.3)
Property, plant and equipment, net ⁽¹⁾	\$ 641.9	\$ 523.8

- (1) This includes finance leases related to machinery and equipment at our Wickliffe, Kentucky facility of \$68.8 million and \$69.2 million, and net book value of \$6.2 million and \$6.7 million at September 30, 2019, and December 31, 2018, respectively. This also includes finance leases related to our Waynesboro, Georgia manufacturing facility for (a) machinery and equipment of \$10.4 million and \$6.5 million and net book value of \$9.2 million and \$6.0 million, (b) construction in progress of \$16.6 million and \$13.7 million and (c) buildings and leasehold improvements of \$0.1 million and \$0.1 million at September 30, 2019, and December 31, 2018, respectively. Amortization expense associated with these finance leases is included within depreciation expense. The payments remaining under these finance lease obligations are included within Note 16.

Note 9: Goodwill and Other Intangible Assets, net

Goodwill

<i>In millions</i>	Operating Segments		Total
	Performance Chemicals	Performance Materials	
December 31, 2018	\$ 126.4	\$ 4.3	\$ 130.7
Acquisitions ⁽¹⁾	297.5	—	297.5
Foreign currency translation	(12.1)	—	(12.1)
September 30, 2019	\$ 411.8	\$ 4.3	\$ 416.1

- (1) See Note 4 for more information regarding the Caprolactone Acquisition and related increase in goodwill.

There were no events or circumstances indicating that goodwill might be impaired as of September 30, 2019.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Other Intangible Assets

All of our other intangibles, net are related to the Performance Chemicals operating segment. The following table summarizes these assets:

<i>In millions</i>	September 30, 2019			December 31, 2018		
	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Intangible assets subject to amortization ⁽¹⁾						
Customer contracts and relationships	302.5	45.5	257.0	151.0	30.3	120.7
Brands ⁽²⁾	\$ 75.3	\$ 10.0	\$ 65.3	\$ 11.4	\$ 9.8	\$ 1.6
Developed technology	61.8	3.5	58.3	—	—	—
Other	4.5	1.6	2.9	4.1	0.8	3.3
Total Other intangibles, net	\$ 444.1	\$ 60.6	\$ 383.5	\$ 166.5	\$ 40.9	\$ 125.6

(1) See Note 4 for more information regarding the Caprolactone Acquisition and related increase in intangible assets.

(2) Represents trademarks, trade names and know-how.

The amortization expense related to our intangible assets in the table above is shown in the table below.

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cost of sales	\$ 0.2	\$ 0.2	\$ 0.5	\$ 0.6
Selling, general and administrative expenses	7.1	3.4	19.7	8.2
Total amortization expense⁽¹⁾	\$ 7.3	\$ 3.6	\$ 20.2	\$ 8.8

(1) See Note 4 for more information about the Caprolactone Acquisition and Pine Chemicals Acquisition, and the related increase in amortization expense.

Based on the current carrying values of intangible assets, estimated pre-tax amortization expense for the next five years is as follows: 2019 - \$29.3 million, 2020 - \$31.8 million, 2021 - \$31.5 million, 2022 - \$30.6 million, and 2023 - \$30.5 million. The estimated pre-tax amortization expense may fluctuate due to changes in foreign currency.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Note 10: Debt including Finance Lease Obligations

Current and long-term debt including finance lease obligations consisted of the following:

<i>In millions, except percentages</i>	September 30, 2019		September 30, 2019	December 31, 2018
	Interest rate	Maturity date		
Revolving Credit Facility ⁽¹⁾	3.65%	2023	\$ 193.0	\$ —
Term Loan Facilities	3.43%	2022-2023	745.3	375.0
Senior Notes	4.50%	2026	300.0	300.0
Finance lease obligations	7.67%	2027	80.0	80.0
Other	4.94%	2019-2021	5.9	3.9
Total debt including finance lease obligations			1,324.2	758.9
Less: debt issuance costs			7.2	6.5
Total debt including finance lease obligations, net of debt issuance costs			1,317.0	752.4
Less: debt maturing within one year ⁽²⁾			22.6	11.2
Long-term debt including finance lease obligations			\$ 1,294.4	\$ 741.2

(1) Letters of credit outstanding under the revolving credit facility were \$2.1 million and available funds under the facility were \$554.9 million at September 30, 2019.

(2) Debt maturing within one year is included in "Notes payable and current maturities of long-term debt" on the condensed consolidated balance sheets.

Revolving Credit and Term Loan Facility Amendment

On March 7, 2019, we entered into an Amendment No. 3 (the "Amendment No. 3") and an Incremental Facility Agreement and Amendment No. 4 (the "Amendment No. 4", together with Amendment No. 3, the "Amendments") to the Credit Agreement, dated as of March 7, 2016 (as amended, supplemented or otherwise modified prior to the date hereof, including pursuant to the Incremental Facility Agreement and Amendment No. 1, dated as of August 21, 2017 and the Incremental Facility Agreement and Amendment No. 2, dated as of August 7, 2018, the "Existing Credit Agreement", and as amended by the Amendments, the "Amended Credit Agreement"). Among other things, the Amendments established a new class of incremental term loan commitments in the aggregate principal amount of \$375.0 million (the incremental term loans made pursuant thereto, the "Incremental Term A-1 Loans").

The Incremental Term A-1 Loans, bear interest at either (a) an adjusted base rate or (b) an adjusted LIBOR rate, in each case, plus an applicable margin (the "Applicable Margin"), in the case of base rate loans, ranging between zero and 0.25 percent, and in the case of adjusted LIBOR rate loans, ranging between 0.75 percent and 1.25 percent. The Applicable Margin is based on a total leverage based pricing grid.

As consideration for Amendment No. 3, the Company paid to each lender party thereto a consent fee equal to 0.05 percent of the aggregate principal amount of the commitments and outstanding loans under the Existing Credit Agreement held by such lender immediately prior to the Closing Date. Fees of \$1.8 million were incurred to secure the Amended Credit Agreement. These fees have been deferred and will be amortized over the term of the arrangement.

The Incremental Term A-1 Loans are not subject to amortization; the full principal balance is due and payable at maturity on August 7, 2022. The Amended Credit Agreement contains customary affirmative covenants, negative covenants and events of default.

The Company used the proceeds of the Incremental Term A-1 Loans to repay loans outstanding under its revolving credit facility.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Debt Covenants

Our 4.50 percent senior unsecured notes due in 2026 (the "Senior Notes") contain certain customary covenants (including covenants limiting Ingevity's and its restricted subsidiaries' ability to grant or permit liens on certain property securing debt, declare or pay dividends, make distributions on or repurchase or redeem capital stock, make investments in unrestricted subsidiaries, engage in sale and lease-back transactions, and engage in a consolidation or merger, or sell, transfer or otherwise dispose of all or substantially all of the assets of our and our restricted subsidiaries, taken as a whole) and events of default (subject in certain cases to customary exceptions, as well as grace and cure periods). The occurrence of an event of default under the Senior Notes could result in the acceleration of the Senior Notes and could cause a cross-default that could result in the acceleration of other indebtedness of Ingevity and its subsidiaries.

The Revolving Credit Facility and Term Loan Facilities contain customary default provisions, including defaults for non-payment, breach of representations and warranties, insolvency, non-compliance with covenants and cross-defaults to other material indebtedness. The occurrence of an uncured event of default under the Revolving Credit Facilities and Term Loan Facilities could result in all loans and other obligations becoming immediately due and payable and the facilities being terminated. The Revolving Credit Facility and Term Loan Facilities' financial covenants require Ingevity to maintain on a consolidated basis a maximum total leverage ratio of 4.0 to 1.0 (which may be increased to 4.5 to 1.0 under certain circumstances) and a minimum interest coverage ratio of 3.0 to 1.0. Our actual leverage for the four consecutive quarters ended September 30, 2019 was 3.1, and our actual interest coverage for the four consecutive quarters ended September 30, 2019 was 9.2. We were in compliance with all covenants at September 30, 2019.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Note 11: Equity

The tables below provide a roll forward of equity, equity attributable to Ingevity stockholders, and equity attributable to noncontrolling interests.

<i>In millions, except per share data in thousands</i>	Ingevity Stockholders'							
	Common Stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest	Total Equity
	Shares	Amount						
Balance at December 31, 2018	42,332	\$ 0.4	\$ 98.3	\$ 313.5	\$ (17.7)	\$ (55.8)	\$ —	\$ 338.7
Net income (loss)	—	—	—	22.7	—	—	—	22.7
Other comprehensive income (loss)	—	—	—	—	9.1	—	—	9.1
Common stock issued	276	—	—	—	—	—	—	—
Exercise of stock options, net	51	—	1.4	—	—	—	—	1.4
Tax payments related to vested restricted stock units	—	—	—	—	—	(14.3)	—	(14.3)
Share repurchase program	—	—	—	—	—	(3.3)	—	(3.3)
Share-based compensation plans	—	—	4.1	—	—	0.3	—	4.4
Balance at March 31, 2019	42,659	\$ 0.4	\$ 103.8	\$ 336.2	\$ (8.6)	\$ (73.1)	\$ —	\$ 358.7
Net income (loss)	—	—	—	56.8	—	—	—	56.8
Other comprehensive income (loss)	—	—	—	—	(19.4)	—	—	(19.4)
Common stock issued	5	—	—	—	—	—	—	—
Exercise of stock options, net	6	—	0.2	—	—	—	—	0.2
Share-based compensation plans	—	—	3.5	—	—	0.9	—	4.4
Balance at June 30, 2019	42,670	\$ 0.4	\$ 107.5	\$ 393.0	\$ (28.0)	\$ (72.2)	\$ —	\$ 400.7
Net income (loss)	—	—	—	59.9	—	—	—	59.9
Other comprehensive income (loss)	—	—	—	—	(18.5)	—	—	(18.5)
Common stock issued	—	—	—	—	—	—	—	—
Exercise of stock options, net	2	—	0.1	—	—	—	—	0.1
Share repurchase program	—	—	—	—	—	(3.1)	—	(3.1)
Share-based compensation plans	—	—	3.8	—	—	0.4	—	4.2
Balance at September 30, 2019	42,672	\$ 0.4	\$ 111.4	\$ 452.9	\$ (46.5)	\$ (74.9)	\$ —	\$ 443.3

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

<i>In millions, except per share data in thousands</i>	Ingevity Stockholders'							
	Common Stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest	Total Equity
	Shares	Amount						
Balance at December 31, 2017	42,209	\$ 0.4	\$ 140.1	\$ 142.8	\$ (11.7)	\$ (7.7)	\$ 14.0	\$ 277.9
Net income (loss)	—	—	—	30.8	—	—	5.0	35.8
Other comprehensive income (loss)	—	—	—	—	4.0	—	—	4.0
Common stock issued	56	—	—	—	—	—	—	—
Exercise of stock options, net	5	—	0.1	—	—	—	—	0.1
Tax payments related to vested restricted stock units	—	—	—	—	—	(1.5)	—	(1.5)
Share repurchase program	—	—	—	—	—	(3.1)	—	(3.1)
Noncontrolling interest distributions	—	—	—	—	—	—	(5.3)	(5.3)
Share-based compensation plans	—	—	3.1	—	—	0.4	—	3.5
Adoption of ASC 606	—	—	—	1.6	—	—	—	1.6
Balance at March 31, 2018	42,270	\$ 0.4	\$ 143.3	\$ 175.2	\$ (7.7)	\$ (11.9)	\$ 13.7	\$ 313.0
Net income (loss)	—	—	—	46.7	—	—	5.5	52.2
Other comprehensive income (loss)	—	—	—	—	(6.3)	—	—	(6.3)
Common stock issued	38	—	—	—	—	—	—	—
Exercise of stock options, net	1	—	0.1	—	—	—	—	0.1
Share repurchase program	—	—	—	—	—	(6.0)	—	(6.0)
Noncontrolling interest distributions	—	—	—	—	—	—	(7.9)	(7.9)
Share-based compensation plans	—	—	3.5	—	—	0.7	—	4.2
Balance at June 30, 2018	42,309	\$ 0.4	\$ 146.9	\$ 221.9	\$ (14.0)	\$ (17.2)	\$ 11.3	\$ 349.3
Net income (loss)	—	—	—	49.5	—	—	2.2	51.7
Other comprehensive income (loss)	—	—	—	—	(3.8)	—	—	(3.8)
Common stock issued	13	—	—	—	—	—	—	—
Tax payments related to vested restricted stock units	—	—	—	—	—	(0.6)	—	(0.6)
Share repurchase program	—	—	—	—	—	(9.0)	—	(9.0)
Noncontrolling interest distributions	—	—	—	—	—	—	(2.1)	(2.1)
Share-based compensation plans	—	—	3.4	—	—	0.4	—	3.8
Acquisition of noncontrolling interest	—	—	(55.2)	—	—	—	(11.4)	(66.6)
Balance at September 30, 2018	42,322	\$ 0.4	\$ 95.1	\$ 271.4	\$ (17.8)	\$ (26.4)	\$ —	\$ 322.7

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Accumulated other comprehensive income (loss)

<i>In millions</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Foreign currency translation				
Beginning Balance	\$ (22.7)	\$ (13.0)	\$ (16.4)	\$ (10.1)
Net gains (losses) on foreign currency translation	(22.9)	(3.6)	(29.0)	(6.5)
Gains (losses) on net investment hedges	6.9	—	6.6	—
Less: tax provision (benefit)	1.6	—	1.5	—
Net gains (losses) on net investment hedges	5.3	—	5.1	—
Other comprehensive income (loss), net of tax	(17.6)	(3.6)	(23.9)	(6.5)
Ending Balance	\$ (40.3)	\$ (16.6)	\$ (40.3)	\$ (16.6)
Derivative Instruments				
Beginning Balance	\$ (3.6)	\$ 0.5	\$ 0.4	\$ —
Gains (losses) on derivative instruments	(1.1)	0.2	(5.7)	1.1
Less: tax provision (benefit)	(0.2)	0.1	(1.3)	0.3
Net gains (losses) on derivative instruments	(0.9)	0.1	(4.4)	0.8
(Gains) losses reclassified to net income	—	(0.5)	(0.6)	(0.7)
Less: tax (provision) benefit	—	(0.2)	(0.1)	(0.2)
Net (gains) losses reclassified to net income	—	(0.3)	(0.5)	(0.5)
Other comprehensive income (loss), net of tax	(0.9)	(0.2)	(4.9)	0.3
Ending Balance	\$ (4.5)	\$ 0.3	\$ (4.5)	\$ 0.3
Pension and other postretirement benefits				
Beginning Balance	\$ (1.7)	\$ (1.5)	\$ (1.7)	\$ (1.6)
Actuarial and other (gains) losses, amortization of prior service cost (credits), and settlement and curtailment (income) charge reclassified to net income	—	—	—	0.1
Less: tax (provision) benefit	—	—	—	—
Net actuarial and other (gains) losses, amortization of prior service cost (credits), and settlement and curtailment (income) charge reclassified to net income	—	—	—	0.1
Other comprehensive income (loss), net of tax	—	—	—	0.1
Ending Balance	\$ (1.7)	\$ (1.5)	\$ (1.7)	\$ (1.5)
Total AOCI ending balance at September 30	<u>\$ (46.5)</u>	<u>\$ (17.8)</u>	<u>\$ (46.5)</u>	<u>\$ (17.8)</u>

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Reclassifications of accumulated other comprehensive income (loss)

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Derivative instruments				
Currency exchange contracts ⁽¹⁾	\$ —	\$ 0.5	\$ —	\$ 0.6
Natural gas contracts ⁽²⁾	—	—	0.6	0.1
Total before tax	—	0.5	0.6	0.7
(Provision) benefit for income taxes	—	(0.2)	(0.1)	(0.2)
Amount included in net income (loss)	\$ —	\$ 0.3	\$ 0.5	\$ 0.5

Pension and other post retirement benefits

Amortization of unrecognized net actuarial and other gains (losses) ⁽³⁾	—	—	—	(0.1)
Total before tax	—	—	—	(0.1)
(Provision) benefit for income taxes	—	—	—	—
Amount included in net income (loss)	\$ —	\$ —	\$ —	\$ (0.1)

- (1) Included within "Net sales" on the condensed consolidated statement of operations.
(2) Included within "Cost of sales" on the condensed consolidated statement of operations.
(3) Included within "Other (income) expense, net" on the condensed consolidated statement of operations.

Noncontrolling interest acquisition

On August 1, 2018, we completed the acquisition of the remaining 30 percent noncontrolling interest in Purification Cellutions LLC, which was treated as a partnership for tax purposes, for a purchase price of \$80.0 million. The acquisition resulted in the elimination of Noncontrolling interest of \$11.4 million and the recognition of a Deferred tax asset of \$14.3 million, with the remainder being recorded against Additional paid in capital of \$54.3 million in our Condensed Consolidated Financial Statements.

Share Repurchases

On February 20, 2017, our Board of Directors authorized the repurchase of up to \$100.0 million of our common stock. In addition, on November 1, 2018, the Board of Directors approved the authorization for the repurchase of up to an additional \$350.0 million of Ingevity's outstanding common stock. The repurchase program does not include a specific timetable or price targets and may be suspended or terminated at any time. Shares may be purchased through open market or privately negotiated transactions at the discretion of management based on its evaluation of market prevailing conditions and other factors.

During the three months ended September 30, 2019, 40,300 shares of our common stock were repurchased. At September 30, 2019, \$389.5 million remained unused under our Board-authorized repurchase program. We record shares of common stock repurchased at cost as treasury stock, resulting in a reduction of stockholders' equity in the condensed consolidated balance sheets. When the treasury shares are contributed under our employee benefit plans or issued for option exercises, we use a first-in, first-out ("FIFO") method for determining cost. The difference between the cost of the shares and the market price at

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

the time of contribution to an employee benefit plan is added to or deducted from the related capital in excess of par value of common stock.

Note 12: Retirement Plans

The following table summarizes the components of net periodic benefit cost (income) for our defined benefit pension plans:

<i>In millions</i>	Three Months Ended September 30,			
	Pensions		Other Benefits	
	2019	2018	2019	2018
Components of net periodic benefit cost (income):				
Service cost ⁽¹⁾	\$ 0.2	\$ 0.5	\$ —	\$ —
Interest cost ⁽²⁾	0.3	0.2	—	—
Expected return on plan assets ⁽²⁾	(0.2)	(0.2)	—	—
Amortization of net actuarial and other (gain) loss ⁽²⁾	—	—	—	—
Net periodic benefit cost (income)	\$ 0.3	\$ 0.5	\$ —	\$ —

<i>In millions</i>	Nine Months Ended September 30,			
	Pensions		Other Benefits	
	2019	2018	2019	2018
Components of net periodic benefit cost (income):				
Service cost ⁽¹⁾	\$ 0.9	\$ 1.3	\$ —	\$ —
Interest cost ⁽²⁾	0.8	0.6	—	—
Expected return on plan assets ⁽²⁾	(0.7)	(0.6)	—	—
Amortization of net actuarial and other (gain) loss ⁽²⁾	—	0.1	—	—
Net periodic benefit cost (income)	\$ 1.0	\$ 1.4	\$ —	\$ —

(1) Amounts are recorded to "Cost of sales" on our condensed consolidated statements of operations consistent with the employee compensation costs that participate in the plan.

(2) Amounts are recorded to "Other (income) expense, net" on our condensed consolidated statements of operations.

Contributions

We did not make any voluntary cash contributions to our Union Hourly defined benefit pension plan in the three and nine months ended September 30, 2019. There are no required cash contributions to our Union Hourly defined benefit pension plan in 2019, and we currently have no plans to make any voluntary cash contributions in 2019.

Note 13: Restructuring and Other (Income) Charges, net

We continually perform strategic reviews and assess the return on our operations which sometimes results in a plan to restructure the business. The cost and benefit of these strategic restructuring initiatives are recorded as restructuring and other (income) charges, net in our condensed consolidated statements of operations. These costs are excluded from our operating segment results.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Detail on the restructuring charges and asset disposal activities is provided below.

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Restructuring and other (income) charges, net				
Gain on sale of assets and businesses	\$ —	\$ —	\$ (0.4)	\$ (0.6)
Other miscellaneous exit costs	—	—	0.7	—
Other restructuring costs	1.7	—	1.7	—
Total restructuring and other (income) charges, net	\$ 1.7	\$ —	\$ 2.0	\$ (0.6)

2019 activities

During the third quarter of 2019, we initiated a reorganization as part of an effort to improve our Performance Chemical's workflow and efficiency to best serve our customers' needs and reduce costs. As a result of this reorganization, we recorded \$1.7 million in severance and other employee-related costs in the three and nine months ended September 30, 2019.

In April 2019, we sold assets from the Performance Chemicals derivatives operations in Palmeira, Brazil. These assets were part of a facility that was closed as a result of a restructuring event in 2016. As a result of this sale, we recorded \$0.4 million as a gain on sale of assets, as well as \$0.7 million related to other miscellaneous exit costs, in the nine months ended September 30, 2019.

2018 activities

In February 2018, we sold assets from the Performance Chemicals derivatives operations in Duque De Caxias, Rio de Janeiro, Brazil. These assets were part of a facility that was closed as a result of a restructuring event in 2016. As a result of this sale, we recorded \$0.6 million as a gain on sale of assets in the nine months ended September 30, 2018.

Rollforward of Restructuring Reserves

The following table shows a roll forward of restructuring reserves that will result in cash spending.

<i>In millions</i>	Balance at 12/31/2018 ⁽¹⁾	Change in Reserve ⁽²⁾	Cash Payments	Other	Balance at 9/30/2019 ⁽¹⁾
Restructuring Reserves	\$ —	1.7	—	—	\$ 1.7

(1) Included in "Accrued Expenses" on the condensed consolidated balance sheets.

(2) Includes severance and other employee-related costs.

Note 14: Income Taxes

The effective tax rates, including discrete items, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Effective tax rate	22.6%	24.1%	19.3%	21.6%

We determine our interim tax provision using an Estimated Annual Effective Tax Rate methodology ("EAETR"). The EAETR is applied to the year-to-date ordinary income, exclusive of discrete items. The tax effects of discrete items are then included to arrive at the total reported interim tax provision.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

The determination of the EAETR is based upon a number of estimates, including the estimated annual pre-tax ordinary income in each tax jurisdiction in which we operate. As our projections of ordinary income change throughout the year, the EAETR will change period-to-period. The tax effects of discrete items are recognized in the tax provision in the period they occur. Depending on various factors, such as the item's significance in relation to total income and the rate of tax applicable in the jurisdiction to which it relates, discrete items in any quarter may materially impact the reported effective tax rate. As a global enterprise, our tax expense may be impacted by changes in tax rates or laws, the finalization of tax audits and reviews, as well as other factors. As such, there may be significant volatility in interim tax provisions.

The below table provides a reconciliation between our reported effective tax rates and the EAETR.

<i>In millions, except percentages</i>	Three Months Ended September 30,					
	2019			2018		
	Before tax	Tax	Effective tax rate % impact	Before tax	Tax	Effective tax rate % impact
Consolidated operations	\$ 77.4	\$ 17.5	22.6%	\$ 68.1	\$ 16.4	24.1%
Discrete items:						
Restructuring and other (income) charges, net	1.7	0.4		—	—	
Acquisition and other-related costs ⁽¹⁾	1.3	0.4		—	—	
Other tax only discrete items	—	(0.1)		—	0.2	
Total discrete items	3.0	0.7		—	0.2	
Consolidated operations, before discrete items	\$ 80.4	\$ 18.2		\$ 68.1	\$ 16.6	
Quarterly effect of changes in the EAETR ⁽²⁾			22.6%			24.4%

<i>In millions, except percentages</i>	Nine Months Ended September 30,					
	2019			2018		
	Before tax	Tax	Effective tax rate % impact	Before tax	Tax	Effective tax rate % impact
Consolidated operations	\$ 172.8	\$ 33.4	19.3%	\$ 178.2	\$ 38.5	21.6%
Discrete items:						
Restructuring and other (income) charges, net	2.0	0.4		(0.6)	—	
Acquisition and other-related costs ⁽¹⁾	33.3	6.0		5.7	1.3	
Other tax only discrete items	—	6.7		—	0.3	
Total discrete items	35.3	13.1		5.1	1.6	
Consolidated operations, before discrete items	\$ 208.1	\$ 46.5		\$ 183.3	\$ 40.1	
Quarterly effect of changes in the EAETR ⁽²⁾			22.3%			21.9%

(1) See Note 4 for more information on our acquisition and other-related costs.

(2) Decrease in EAETR for the three months ended September 30, 2019, as compared to September 30, 2018, is due to a change in the mix of forecasted earnings in various tax jurisdictions with varying rates. The increase in EAETR for the nine months ended September 30, 2019, as compared to September 30, 2018, is driven primarily by the 30 percent acquisition of our noncontrolling interest in Purifications Cellutions, LLC. ("PurCell") on August 1, 2018. PurCell, prior to the acquisition, was a limited liability company and was treated as a "pass-through" entity for tax purposes. Although we consolidated 100 percent of PurCell, only 70 percent of PurCell's earnings were included in the calculation of Ingevity's provision for income taxes as presented on the Condensed Consolidated Statement of Operations. Post-acquisition, 100 percent of the earnings of the entity are now included in the tax calculation, which when combined with the change in forecasted earnings in various tax jurisdictions with varying tax rates resulted in a slight increase to our effective tax rate.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

At September 30, 2019 and December 31, 2018, we had deferred tax assets of \$13.1 million and \$15.5 million, respectively, resulting from certain historical net operating losses from our Brazilian and Chinese operations for which a full valuation allowance has been established. The ultimate realization of these deferred tax assets depends on the generation of future taxable income during the periods in which these net operating losses are available to be used. In evaluating the realizability of these deferred tax assets, we consider projected future taxable income and tax planning strategies in making our assessment. As of September 30, 2019, we cannot objectively assert that these deferred tax assets are more likely than not to be realized and therefore we have maintained a full valuation allowance. We intend to continue maintaining a full valuation allowance on these deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. Specific to our Chinese operations, it is reasonably possible that a portion of our Chinese valuation allowance of \$1.0 million at September 30, 2019, could be reversed within the next 12 months due to increased profitability levels. A release of all or a portion of the valuation allowance could be possible, if we determine that sufficient positive evidence becomes available to allow us to reach a conclusion that the valuation allowance will no longer be needed. A release of the valuation allowance would result in the recognition of certain deferred tax assets and a reduction to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change based on the level of profitability that we are able to actually achieve.

Note 15: Commitments and Contingencies

Legal Proceedings

We are from time to time, involved in routine litigation and other legal matters incidental to our operations. None of the litigation or other legal matters in which we are currently involved, individually or in the aggregate, is material to our consolidated financial condition, liquidity, or results of operations nor are we aware of any material pending or contemplated proceedings.

Note 16: Leases

Operating Leases

We lease a variety of assets for use in our operations that are classified as operating leases. At contract inception, we determine that a lease exists if the contract conveys the right to control an identified asset for a period of time in exchange for consideration. Control is considered to exist when the lessee has the right to obtain substantially all of the economic benefits from the use of an identified asset as well as the right to direct the use of that asset. If a contract is considered to be a lease, we recognize a lease liability based on the present value of the future lease payments, with an offsetting entry to recognize a right-of-use asset. As a majority of our leases do not provide an implicit rate within the lease, an incremental borrowing rate is used which is based on information available at the commencement date. Upon adoption of ASC 842, we used the incremental borrowing rate on January 1, 2019, for operating leases that commenced prior to that date. The determination of the incremental borrowing rate for each individual lease was impacted by the following assumptions: lease term, currency, and the economic environment for the physical location of the leased asset.

Our operating leases principally relate to the following leased asset classes:

Leased Asset Class	Expected Lease Term
Administrative offices	1 to 10 years
Manufacturing buildings	10 to 28 years
Manufacturing and office equipment	2 to 6 years
Warehousing and storage facilities	2 to 10 years
Vehicles	3 to 6 years
Rail cars	2 to 8 years

Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized on a straight-line basis over the expected lease term. Some of our leases include options to extend the lease term at our sole discretion. We account for lease and non-lease components together as a single component for all lease asset classes. The depreciable life of

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

assets and leasehold improvements is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Certain leases provide for escalation of the lease payments, as well as maintenance costs and taxes increase.

Finance leases

Our finance lease obligations consist of \$80.0 million at September 30, 2019 and 2018, respectively, owed to the city of Wickliffe, Kentucky, associated with Performance Materials' Wickliffe, Kentucky manufacturing site, which is due at maturity in 2027. The interest rate on the \$80.0 million finance lease obligation is 7.67%. Interest payments are payable semi-annually.

We have a finance lease obligation due in 2031 for certain assets located at our Performance Materials' Waynesboro, Georgia manufacturing facility. The lease is with the Development Authority of Burke County ("Authority"). The Authority established the sale-leaseback of these assets by issuing an industrial development revenue bond. The bond was purchased by Ingevity and the obligations under the finance lease remain with Ingevity. Accordingly, we offset the finance lease obligation and bond on our condensed consolidated balance sheets.

<i>In millions</i>	Financial Statement Caption	September 30, 2019
Assets		
Operating lease assets, net ⁽¹⁾	Operating lease assets, net	\$ 55.8
Finance lease assets, net ⁽²⁾	Property, plant, and equipment, net	32.1
Finance lease assets, net ⁽²⁾	Other assets, net	1.2
Total lease assets		<u>\$ 89.1</u>
Liabilities		
Current		
Operating lease liabilities ⁽³⁾	Current operating lease liabilities	\$ 17.6
Finance lease liabilities	Notes payable and current maturities of long-term debt	—
Noncurrent		
Operating lease liabilities	Noncurrent operating lease liabilities	38.6
Finance lease liabilities	Long-term debt including finance lease obligations	80.0
Total lease liabilities		<u>\$ 136.2</u>

(1) Operating lease assets, net are recorded net of accumulated amortization of \$13.7 million as of September 30, 2019.

(2) Finance lease assets are recorded net of accumulated amortization in Property, plant, and equipment, net and Other assets, net of \$63.8 million and \$0.3 million, as of September 30, 2019, respectively.

(3) Operating lease liabilities includes \$0.3 million of accrued interest.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Lease cost

<i>In millions</i>	Financial Statement Caption	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost ⁽¹⁾	Cost of sales	\$ 5.1	\$ 16.3
	Selling, general, and administrative expenses	0.5	1.7
Finance lease cost			
Amortization of leased assets	Cost of sales	0.4	1.2
Interest on lease liabilities	Interest expense, net	1.5	4.6
Net lease cost ⁽²⁾		<u>\$ 7.5</u>	<u>\$ 23.8</u>

(1) Includes short-term leases and variable lease costs, which are immaterial.

(2) Only on the rare occasion do we sublease our leased assets, as a result this amount excludes sublease income which is immaterial.

Maturity of Lease Liabilities

<i>In millions</i>	September 30, 2019		
	Operating leases	Finance leases	Total
2019	\$ 5.5	\$ —	\$ 5.5
2020	18.9	6.1	25.0
2021	14.5	6.1	20.6
2022	10.4	6.1	16.5
2023	6.6	6.1	12.7
2024 and thereafter	7.5	101.6	109.1
Total lease payments	\$ 63.4	\$ 126.0	\$ 189.4
Less: interest	7.2	46.0	53.2
Present value of lease liabilities ⁽¹⁾	<u>\$ 56.2</u>	<u>\$ 80.0</u>	<u>\$ 136.2</u>

(1) As of September 30, 2019, we have additional operating lease commitments that have not yet commenced of approximately \$20.7 million for the relocation of our corporate headquarters. The lease is expected to commence in the first half of 2020 and the lease term is for 15 years with two 5 year extensions.

Minimum lease payments pursuant to agreements as of December 31, 2018, under operating leases that have non-cancelable lease terms in excess of 12 months and under capital leases presented in accordance with ASC 840 are as follows:

<i>In millions</i>	Operating leases	Finance leases
2019	\$ 21.9	\$ 6.1
2020	17.2	6.1
2021	13.3	6.1
2022	9.7	6.1
2023	6.0	6.1
2024 and thereafter	5.9	101.5
Minimum lease payments	\$ 74.0	\$ 132.0
Less: interest		52.0
Capital lease obligations		<u>\$ 80.0</u>

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Lease Term and Discount Rate

	<u>September 30, 2019</u>
Weighted-average remaining lease term (years)	
Operating leases	4.2
Finance leases	8.7
Weighted-average discount rate	
Operating leases	5.64%
Finance leases	7.67%

Other Information

<i>In millions</i>		<u>Nine Months Ended September 30, 2019</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	(17.9)
Operating cash flows from finance leases		(6.1)
Financing cash flows from finance leases	\$	—

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

Note 17: Segment Information

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales				
Performance Materials	\$ 130.2	\$ 96.3	\$ 362.4	\$ 287.9
Performance Chemicals	229.7	214.9	627.1	567.1
Total net sales ⁽¹⁾	\$ 359.9	\$ 311.2	\$ 989.5	\$ 855.0
Segment EBITDA ⁽²⁾				
Performance Materials	\$ 54.2	\$ 41.6	\$ 154.7	\$ 126.5
Performance Chemicals	59.8	49.1	151.1	120.7
Total segment EBITDA ⁽²⁾	\$ 114.0	\$ 90.7	\$ 305.8	\$ 247.2
Interest expense, net	(12.1)	(7.9)	(36.3)	(21.8)
(Provision) benefit for income taxes	(17.5)	(16.4)	(33.4)	(38.5)
Depreciation and amortization - Performance Materials	(6.0)	(5.3)	(17.6)	(16.7)
Depreciation and amortization - Performance Chemicals	(15.5)	(9.4)	(43.8)	(25.4)
Restructuring and other income (charges), net ⁽³⁾	(1.7)	—	(2.0)	0.6
Acquisition and other related costs ⁽⁴⁾	(1.3)	—	(33.3)	(5.7)
Net (income) loss attributable to noncontrolling interests	—	(2.2)	—	(12.7)
Net income (loss) attributable to Ingevity stockholders	\$ 59.9	\$ 49.5	\$ 139.4	\$ 127.0

(1) Relates to external customers only, all intersegment sales and related profit have been eliminated in consolidation.

(2) Segment EBITDA is the primary measure used by the Company's chief operating decision maker to evaluate the performance of and allocate resources among our operating segments. Segment EBITDA is defined as segment revenue less segment operating expenses (segment operating expenses consist of costs of sales, selling, general and administrative expenses, other (income) expense, net, excluding depreciation and amortization). We have excluded the following items from segment EBITDA: interest expense associated with corporate debt facilities, income taxes, depreciation, amortization, restructuring and other (income) charges, acquisition and other related costs, pension and postretirement settlement and curtailment (income) charge.

(3) Income (charges) for all periods presented relate to our Performance Chemicals segment.

(4) Charges associated with the acquisition and integration of the Caprolactone Business and Pine Chemical Business. For more detail on the charges incurred see Note 4 within these Condensed Consolidated Financial Statements.

Note 18: Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to Ingevity stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) attributable to Ingevity stockholders for the period by the weighted average number of common shares and potentially dilutive common shares outstanding for the period. The calculation of diluted net income per share excludes all antidilutive common shares.

Ingevity Corporation
Notes to the Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

<i>In millions, except share and per share data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss) attributable to Ingevity stockholders	\$ 59.9	\$ 49.5	\$ 139.4	\$ 127.0
Basic and Diluted earnings (loss) per share				
Basic earnings (loss) per share attributable to Ingevity stockholders	\$ 1.42	\$ 1.18	\$ 3.33	\$ 3.02
Diluted earnings (loss) per share attributable to Ingevity stockholders	1.41	1.16	3.30	2.98
Shares (in thousands)				
Weighted average number of common shares outstanding - Basic	42,299	42,037	41,793	42,070
Weighted average additional shares assuming conversion of potential common shares	344	620	408	554
Shares - diluted basis	<u>42,643</u>	<u>42,657</u>	<u>42,201</u>	<u>42,624</u>

The following average number of potential common shares were antidilutive, and therefore, were not included in the diluted earnings per share calculation:

<i>In thousands</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Average number of potential common shares - antidilutive	118	17	103	77

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Management's discussion and analysis of Ingevity's financial condition and results of operations ("MD&A") is provided as a supplement to the Condensed Consolidated Financial Statements and related notes included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition and results of our operations.

Cautionary Statements About Forward-Looking Statements

This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements, within the meaning of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Private Securities Litigation Reform Act of 1995 that reflect our current expectations, beliefs, plans or forecasts with respect to, among other things, future events and financial performance. Forward-looking statements are often characterized by words or phrases such as "may," "will," "could," "should," "would," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "prospects," "potential" and "forecast," and other words, terms and phrases of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. We caution readers that a forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. Such risks and uncertainties include, among others, those discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report") as well as in our unaudited Condensed Consolidated Financial Statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission (the "SEC"). We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. In addition to any such risks, uncertainties and other factors discussed elsewhere herein, risks, uncertainties and other factors that could cause or contribute to actual results differing materially from those expressed or implied by the forward-looking statements include, but are not limited to the following:

- we are exposed to risks that the expected benefits from the acquisitions of Georgia Pacific's pine chemicals business ("Pine Chemical Acquisition") and of Perstorp Holding AB's caprolactone business ("Caprolactone Acquisition") may not be realized or will not be realized within the expected time period, the risk that the acquired businesses will not be integrated successfully, the risk of significant transaction costs and unknown or understated liabilities;
- we may be adversely affected by general economic and financial conditions beyond our control;
- we are exposed to risks related to our international sales and operations;
- our reported results could be adversely affected by currency exchange rates and currency devaluation could impair our competitiveness;
- our operations outside the U.S. require us to comply with a number of U.S. and foreign regulations, violations of which could have a material adverse effect on our financial condition and results of operations;
- our engineered polymers product line may be adversely affected by Brexit;
- we are dependent upon attracting and retaining key personnel;
- adverse conditions in the global automotive market or adoption of alternative or new technologies may adversely affect demand for our automotive carbon products;
- we face competition from producers of alternative products and new technologies, and new or emerging competitors;
- we face competition from infringing intellectual property activity;
- if increasingly more stringent air quality standards worldwide are not adopted, our growth could be impacted;
- we may be adversely affected by a decrease in government infrastructure spending;
- our printing inks business serves customers in a market that is facing declining volumes and downward pricing;

- our Performance Chemicals segment is highly dependent on crude tall oil ("CTO") which is limited in supply;
- lack of access to sufficient CTO would impact our ability to produce CTO-based products;
- a prolonged period of low energy prices may materially impact our results of operations;
- we are dependent upon third parties for the provision of certain critical operating services at several of our facilities;
- the occurrence of a natural disaster, such as a hurricane, winter or tropical storm, earthquake, tornado, flood, fire or other matters such as labor difficulties (including work stoppages), equipment failure or unscheduled maintenance and repair, which could result in operational disruptions of varied duration;
- from time to time we are called upon to protect our intellectual property rights and proprietary information through litigation and other means;
- if we are unable to protect our intellectual property and other proprietary information we may lose significant competitive advantage;
- information technology security breaches and other disruptions;
- government policies and regulations, including, but not limited to, those affecting the environment, climate change, tariffs, tax policies and the chemicals industry; and
- losses due to lawsuits arising out of environmental damage or personal injuries associated with chemical or other manufacturing processes.

Overview

Ingevity is a leading global manufacturer of specialty chemicals and high performance activated carbon materials. We provide innovative solutions to meet our customers' unique and demanding requirements through proprietary formulated products. We report in two business segments, Performance Materials and Performance Chemicals.

Our Performance Materials segment consists of our automotive technologies and process purifications product lines. Performance Materials manufactures products in the form of powder, granular, extruded pellets, extruded honeycombs, and activated carbon sheets. Automotive technologies products are sold into gasoline vapor emission control applications within the automotive industry, while process purification products are sold into the food, water, beverage, and chemical purification industries.

Our Performance Chemicals segment consists of our pavement technologies, oilfield technologies, industrial specialties, and engineered polymers product lines. Performance Chemicals manufactures products derived from CTO and lignin extracted from the kraft paper making process as well as caprolactone monomers and derivatives derived from cyclohexanone and hydrogen peroxide. Performance Chemicals products serve as critical inputs used in a variety of high performance applications, including pavement preservation, pavement adhesion promotion, and warm mix paving (pavement technologies product line), oil well service additives, oil production, and downstream application chemicals (oilfield technologies product line), printing inks, adhesives, agrochemicals, lubricants, and industrial intermediates (industrial specialties product line), coatings, resins, elastomers, adhesives, and bio-plastics (engineered polymers product line).

Recent Developments

Perstorp Holding AB's Caprolactone Business

On December 10, 2018, we entered into an agreement for the sale and purchase of Perstorp UK Ltd. (the “Caprolactone Agreement”) with Perstorp Holding AB, a company registered in Sweden that develops, manufactures, and sells specialty chemicals (the “Seller”). Pursuant to the Caprolactone Agreement, we agreed to purchase the shares held by the Seller in Perstorp UK Ltd., including the Seller’s entire caprolactone business (the “Caprolactone Business”), in exchange for €570.9 million, less assumed debt and other miscellaneous transaction costs, as further defined in the Caprolactone Agreement (the “Purchase Price”), plus interest accrued on the Purchase Price (herein referred to as the “Caprolactone Acquisition”).

On February 13, 2019, pursuant to the terms and conditions set forth in the Caprolactone Agreement, we completed the Caprolactone Acquisition for an aggregate purchase price of €578.9 million (\$652.5 million), less assumed debt of €100.4 million (\$113.1 million). At closing, the assumed debt was settled with an affiliate of the Seller. The Caprolactone Acquisition is integrated into our Performance Chemicals segment and included within our engineered polymers product line. Our revolving credit facility was utilized as the primary source of funds, along with available cash on hand, to fund the Caprolactone Acquisition. See Note 4 within the Condensed Consolidated Financial Statements for more information.

Results of Operations

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 359.9	\$ 311.2	\$ 989.5	\$ 855.0
Cost of sales	220.4	192.6	618.5	535.8
Gross profit	139.5	118.6	371.0	319.2
Selling, general and administrative expenses	40.7	34.5	122.3	96.5
Research and technical expenses	4.9	5.6	15.0	16.3
Restructuring and other (income) charges, net	1.7	—	2.0	(0.6)
Acquisition-related costs	1.3	—	24.9	4.3
Other (income) expense, net	1.4	2.5	(2.3)	2.7
Interest expense, net	12.1	7.9	36.3	21.8
Income (loss) before income taxes	77.4	68.1	172.8	178.2
Provision (benefit) for income taxes	17.5	16.4	33.4	38.5
Net income (loss)	59.9	51.7	139.4	139.7
Less: Net income (loss) attributable to noncontrolling interest	—	2.2	—	12.7
Net income (loss) attributable to Ingevity stockholders	\$ 59.9	\$ 49.5	\$ 139.4	\$ 127.0

Net sales and Gross profit

The table below shows the 2019 Net sales and percentage variances from 2018:

<i>In millions, except percentages</i>	Net sales	Percentage change vs. prior year			
		Total change	Currency effect	Price/Mix	Volume
Three months ended September 30, 2019	\$ 359.9	16%	—%	3%	13%
Nine months ended September 30, 2019	\$ 989.5	16%	(1)%	4%	13%

Three Months Ended September 30, 2019 vs. 2018

Net sales increase of \$48.7 million in 2019 was primarily driven by favorable volume gains of \$40.7 million (13 percent of sales) and favorable pricing and product mix of \$9.5 million (three percent of sales). Both of our operating segments contributed to the volume and pricing and product mix impacts during the quarter. The Caprolactone Acquisition, completed in the first quarter of this year, contributed \$32.4 million to the favorable volume growth during the period. Additionally, unfavorable foreign currency exchange impacted Net sales by \$1.5 million (zero percent of sales), primarily related to euro and Chinese renminbi denominated sales. For additional information regarding the impact of the Caprolactone Acquisition for the three months ended September 30, 2019, see Performance Chemicals included within this MD&A.

Gross profit improvement of \$20.9 million was driven by favorable sales volume contributing \$23.6 million of additional gross profit and pricing and product mix improvement of \$9.3 million. These positive impacts were offset by increased manufacturing costs of \$11.1 million and unfavorable foreign currency exchange of \$0.9 million. Refer to the Segment Operating Results section included within this MD&A for more information on the drivers to the changes in gross profit period over period for both segments.

Nine Months Ended September 30, 2019 vs. 2018

Net sales increase of \$134.5 million in 2019 was primarily driven by favorable volume gains of \$107.6 million (13 percent of sales) and favorable pricing and product mix of \$33.8 million (four percent of sales). Both of our operating segments contributed to the volume and pricing and product mix impacts during the period. The Caprolactone Acquisition contributed \$90.9 million to the favorable volume growth during the period. Additionally, unfavorable foreign currency exchange impacted Net sales by \$6.9 million (one percent of sales), primarily related to euro and Chinese renminbi denominated sales. For additional information regarding the impact of the Caprolactone Acquisition for the nine months ended September 30, 2019, see Performance Chemicals included within this MD&A.

Gross profit improvement of \$51.8 million was driven by favorable sales volume contributing \$56.4 million of additional gross profit and pricing and product mix improvement of \$36.1 million, partially offset by increased manufacturing costs of \$30.5 million and \$7.0 million of net inventory step-up amortization related to the Caprolactone Acquisition in the current year less the Pine Chemical Acquisition in 2018 (see Note 4 within the Condensed Consolidated Financial Statements for more information). Unfavorable foreign currency exchange negatively impacted gross profit by \$3.2 million. Refer to the Segment Operating Results section included within this MD&A for more information on the drivers to the changes in gross profit period over period for each segment.

Selling, general and administrative expenses

Three Months Ended September 30, 2019 vs. 2018

Selling, general and administrative ("SG&A") increased \$6.2 million in 2019 compared to 2018. SG&A expenses as a percentage of Net sales increased to 11.3 percent for the three months ended September 30, 2019 from 11.1 percent in 2018. The increase in SG&A is primarily due to \$3.7 million of amortization associated with intangible assets acquired as a result of the Caprolactone Acquisition (see Note 4 within the Condensed Consolidated Financial Statements for more information) and increased legal costs associated with our Performance Materials' intellectual property litigation of \$3.5 million, which were offset slightly by lower employee related costs.

Nine Months Ended September 30, 2019 vs. 2018

SG&A increased \$25.8 million in 2019 compared to 2018. SG&A expenses as a percentage of Net sales increased to 12.4 percent for the nine months ended September 30, 2019 from 11.3 percent in 2018. The increase in SG&A is primarily due to \$11.6 million of amortization associated with intangible assets acquired as a result of the Caprolactone Acquisition and Pine Chemical Acquisition (see Note 4 within the Condensed Consolidated Financial Statements for more information). The remaining increase is related to increased spending associated with the Engineered Polymers product line, company-wide growth, and increased legal costs associated with our Performance Materials' intellectual property litigation of \$8.4 million.

Research and technical expenses

Three Months Ended September 30, 2019 vs. 2018

Research and technical expenses as a percentage of Net sales remained relatively consistent period over period, decreasing to 1.4 percent from 1.8 percent for the three months ended September 30, 2019 and 2018, respectively.

Nine Months Ended September 30, 2019 vs. 2018

Research and technical expenses as a percentage of Net sales remained relatively consistent period over period, decreasing to 1.5 percent from 1.9 percent for the nine months ended September 30, 2019 and 2018, respectively.

Restructuring and other (income) charges, net

Three and Nine Months Ended September 30, 2019 vs. 2018

Restructuring and other (income) charges, net were \$1.7 million and \$2.0 million for the three and nine months ended September 30, 2019, respectively, and zero and \$(0.6) million for the three and nine months ended September 30, 2018, respectively.

In September 2019, we initiated a reorganization as part of an effort to improve our Performance Chemicals segment's workflow and efficiency to best serve our customers' needs and reduce costs. As a result of this reorganization, we recorded \$1.7 million in severance and other employee-related costs in the three months ended September 30, 2019.

In April 2019, we sold assets from the Performance Chemicals derivatives operations in Palmeira, Brazil. These assets were part of a facility that was closed as a result of a restructuring event in 2016. As a result of this sale, we recorded \$0.4 million as a gain on sale of assets, which was offset by a \$0.7 million charge related to other miscellaneous exit costs.

In February 2018, we sold assets from the Performance Chemicals derivatives operations in Duque De Caxias, Rio de Janeiro, Brazil. These assets were part of a facility that was closed as a result of a restructuring event in 2016. As a result of this sale, we recorded \$0.6 million as a gain on sale of assets in the nine months ended September 30, 2018.

Acquisition-related costs**Three Months Ended September 30, 2019 vs. 2018**

Acquisition-related costs of \$1.3 million and zero for the three months ended September 30, 2019 and 2018, respectively, were incurred in connection with the Caprolactone Acquisition. See Note 4 within the Condensed Consolidated Financial Statements for more information.

Nine Months Ended September 30, 2019 vs. 2018

Acquisition-related costs of \$24.9 million and \$4.3 million for the nine months ended September 30, 2019 and 2018, respectively, were incurred in connection with the the Caprolactone Acquisition and Pine Chemical Acquisition. See Note 4 within the Condensed Consolidated Financial Statements for more information.

Other (income) expense, net**Three and Nine Months Ended September 30, 2019 vs. 2018**

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Foreign currency exchange (income) loss	\$ 1.6	\$ 1.2	\$ (1.0)	\$ 2.2
Royalty and sundry (income) loss	(0.1)	(0.2)	(0.3)	(0.7)
Impairment of equity investment ⁽¹⁾	—	1.5	—	1.5
Other (income) expense, net	(0.1)	—	(1.0)	(0.3)
Total Other (income) expense, net	\$ 1.4	\$ 2.5	\$ (2.3)	\$ 2.7

(1) Represents an impairment charge recorded during the three months ended September 30, 2018 related to an equity investment within our Performance Materials segment.

Interest expense, net**Three and Nine Months Ended September 30, 2019 vs. 2018**

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest expense on finance lease obligations	\$ 1.5	\$ 1.5	4.6	4.6
Interest expense on revolving credit and term loan facilities ⁽¹⁾	9.5	3.8	27.0	10.5
Interest expense on senior notes ⁽¹⁾	3.8	3.6	10.9	9.8
Interest income associated with our Restricted investment	(0.5)	(0.5)	(1.5)	(1.5)
Capitalized interest	(0.5)	(0.3)	(1.3)	(0.7)
Fixed-to-fixed cross-currency interest rate swap ⁽²⁾	(0.9)	—	(1.5)	—
Other interest (income) expense, net	(0.8)	(0.2)	(1.9)	(0.9)
Total Interest expense, net	\$ 12.1	\$ 7.9	\$ 36.3	\$ 21.8

(1) See Note 10 within the Condensed Consolidated Financial Statements for more information.

(2) See Note 6 within the Condensed Consolidated Financial Statements for more information.

Provision (benefit) for income taxes**Three Months Ended September 30, 2019 vs. 2018**

Our effective tax rate was 22.6 percent and 24.1 percent for the three months ended September 30, 2019 and 2018, respectively. Excluding discrete items, the effective rate was 22.6 percent compared to 24.4 percent for the three months ended September 30, 2019 and 2018, respectively. See Note 14 to the Condensed Consolidated Financial Statements for more information on the drivers to the change in the effective tax rate.

Nine Months Ended September 30, 2019 vs. 2018

Our effective tax rate was 19.3 percent and 21.6 percent for the nine months ended September 30, 2019 and 2018, respectively. Excluding discrete items, the effective rate was 22.3 percent compared to 21.9 percent for the nine months ended September 30, 2019 and 2018, respectively. The increase in EAETR for the nine months ended September 30, 2019, as compared to September 30, 2018, is driven primarily by the 30 percent acquisition of our noncontrolling interest in Purifications Cellutions, LLC. ("PurCell") on August 1, 2018. PurCell, prior to the acquisition, was a limited liability company and was treated as a "pass-through" entity for tax purposes. Although we consolidated 100 percent of PurCell, only 70 percent of PurCell's earnings were included in the calculation of Ingevity's provision for income taxes as presented on the Condensed Consolidated Statement of Operations. Post-acquisition, 100 percent of the earnings of the entity are now included in the tax calculation which when combined with other factors including the impact of U.S. Tax Reform resulted in a slight increase to our effective tax rate. See Note 14 to the Condensed Consolidated Financial Statements for more information on the drivers to the change in the effective tax rate.

Net income (loss) attributable to noncontrolling interest

Three and Nine Months Ended September 30, 2019 vs. 2018

Net income (loss) attributable to noncontrolling interest was zero and \$2.2 million for the three months ended September 30, 2019 and 2018, respectively, and was zero and \$12.7 million for the nine months ended September 30, 2019 and 2018, respectively. Prior to August 1, 2018, our noncontrolling interest represented the 30 percent ownership interest held by a third-party U.S.-based company in our consolidated Purification Cellutions LLC legal entity. Purification Cellutions LLC manufactures our structured honeycomb products within our Performance Materials segment. Refer to the Performance Materials' operating profit discussion below within the Segment Operating Results section for further discussion of the segment's performance. On August 1, 2018 we purchased the remaining 30 percent interest in Purification Cellutions LLC, see Note 11 to the Condensed Consolidated Financial Statements for more information.

Net income (loss) attributable to Ingevity stockholders

Three Months Ended September 30, 2019 vs. 2018

Net income (loss) attributable to Ingevity stockholders increased \$10.4 million in the three months ended September 30, 2019 versus 2018, primarily driven by higher gross profit of \$20.9 million and our purchase of our remaining noncontrolling interest in the third quarter of 2018 which contributed to an year over year increase of \$2.2 million. This was partially offset by increased interest expense of \$4.2 million, higher SG&A costs of \$6.2 million, and increase in the provision for income taxes of \$1.1 million on the higher earnings. Refer to the Results of Operations for additional details on the drivers to the individual financial statement captions as well as the Segment Operating Results section for a discussion of changes in segment performance both of which are included within this MD&A.

Nine Months Ended September 30, 2019 vs. 2018

Net income (loss) attributable to Ingevity stockholders increased \$12.4 million in nine months ended September 30, 2019 versus 2018, primarily driven by higher gross profit of \$51.8 million, our purchase of our remaining noncontrolling interest in the third quarter of 2018 which contributed to an year over year increase of \$12.7 million and a reduction in our income tax provision of \$5.1 million as a result of discrete tax benefits recognized in 2019. This was partially offset by increased interest expense of \$14.5 million, higher SG&A costs of \$25.8 million, and increased acquisition-related costs of \$20.6 million related to the Caprolactone Acquisition. Refer to the Results of Operations for additional details on the drivers to the individual financial statement captions as well as the Segment Operating Results section for a discussion of changes in segment performance both of which are included within this MD&A.

Segment Operating Results

In addition to the information discussed above, the following sections discuss the results of operations for each of Ingevity's segments. Our segments are (i) Performance Materials and (ii) Performance Chemicals. Segment Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") is the primary measure used by the Company's chief operating decision maker to evaluate the performance of and allocate resources among our operating segments. Segment EBITDA is defined as segment revenue less segment operating expenses (segment operating expenses consist of costs of sales, selling, general and administrative expenses, other (income) expense, net, excluding depreciation and amortization). We have excluded the following items from segment EBITDA: interest expense associated with corporate debt facilities, income taxes, depreciation, amortization, restructuring and other (income) charges, acquisition and other related costs, pension and postretirement settlement and curtailment (income) charge.

In general, the accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in the Annual Consolidated Financial Statements included in our 2018 Annual Report.

Performance Materials

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>Automotive Technologies product line</i>	\$ 120.5	\$ 86.6	\$ 334.1	\$ 258.6
<i>Process Purifications product line</i>	9.7	9.7	28.3	29.3
Total Performance Materials - Net sales	\$ 130.2	\$ 96.3	\$ 362.4	\$ 287.9
Segment EBITDA	\$ 54.2	\$ 41.6	\$ 154.7	\$ 126.5

Comparison of Three and Nine Months Ended September 30, 2019 vs. 2018

<i>Performance Materials (In millions, except percentages)</i>	Percentage change vs. prior year				
	Net sales	Total change	Currency effect	Price/Mix	Volume
Three months ended September 30, 2019	\$ 130.2	35%	(1)%	7%	29%
Nine months ended September 30, 2019	\$ 362.4	26%	(1)%	6%	21%

Three Months Ended September 30, 2019 vs. 2018

Segment net sales for the Performance Materials segment were \$130.2 million and \$96.3 million for the three months ended September 30, 2019 and 2018, respectively. The sales increase in 2019 was primarily driven by \$28.2 million (29 percent of sales) in volume improvements in automotive evaporative emission canister products related to stricter environmental regulation in the Chinese, North American, and European automotive markets. These gains were further bolstered by favorable pricing and product mix of \$6.3 million (seven percent of sales), partially offset by unfavorable foreign currency exchange \$0.6 million (one percent of sales).

Segment EBITDA for the Performance Materials segment was \$54.2 million and \$41.6 million for the three months ended September 30, 2019 and 2018, respectively. Segment EBITDA increased \$12.6 million primarily due to favorable volume in the automotive carbon application, which contributed \$17.6 million and favorable pricing and product mix, which contributed \$5.0 million. These gains were partially offset by increased manufacturing costs of \$5.3 million and increased SG&A and research and technical costs of \$5.2 million, primarily due to increased intellectual property litigation costs of \$3.5 million with the remainder representing increased spending associated with growth. Favorable foreign currency exchange and other miscellaneous income also impacted Segment EBITDA by \$0.5 million.

Nine Months Ended September 30, 2019 vs. 2018

Segment net sales for the Performance Materials segment were \$362.4 million and \$287.9 million for the nine months ended September 30, 2019 and 2018, respectively. The sales increase in 2019 was primarily driven by \$60.8 million (21 percent of sales) in volume improvements in automotive evaporative emission canister products related to stricter environmental regulation in the Chinese, North American, and European automotive markets. These gains were further bolstered by favorable pricing and product mix of \$16.3 million (six percent of sales), partially offset by unfavorable foreign currency exchange \$2.6 million (one percent of sales).

Segment EBITDA for the Performance Materials segment was \$154.7 million and \$126.5 million for the nine months ended September 30, 2019 and 2018, respectively. Segment EBITDA increased \$28.2 million primarily due to favorable volume in the automotive carbon application, which contributed \$36.9 million and favorable pricing and product mix, which contributed \$16.7 million. These gains were partially offset by increased manufacturing costs of \$12.2 million and increased SG&A and research and technical costs of \$13.7 million, primarily due to increased intellectual property litigation costs of \$8.4 million legal

costs with the remainder representing increased spending associated with growth. Favorable foreign currency exchange and other miscellaneous income also impacted Segment EBITDA by \$0.5 million.

Performance Chemicals

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>Oilfield Technologies product line</i>	\$ 27.6	\$ 32.5	\$ 86.5	\$ 84.0
<i>Pavement Technologies product line</i>	69.8	68.1	152.9	152.2
<i>Industrial Specialties product line</i>	99.9	114.3	296.8	330.9
<i>Engineered Polymers product line</i>	32.4	—	90.9	—
Total Performance Chemicals - Net sales	\$ 229.7	\$ 214.9	\$ 627.1	\$ 567.1
Segment EBITDA	\$ 59.8	\$ 49.1	\$ 151.1	\$ 120.7

Comparison of Three and Nine Months Ended September 30, 2019 vs. 2018

Performance Chemicals (<i>In millions, except percentages</i>)	Percentage change vs. prior year				
	Net sales	Total change	Currency effect	Price/Mix	Volume
Three months ended September 30, 2019	\$ 229.7	7%	—%	1%	6%
Nine months ended September 30, 2019	\$ 627.1	11%	—%	3%	8%

Pine Chemical Business and Caprolactone Business

The Pine Chemical Business has been integrated into our Performance Chemicals segment and has been included within our results of operations since March 8, 2018. The Caprolactone Business is being integrated into our Performance Chemicals segment and has been included within our results of operations since it was acquired on February 13, 2019. The information presented below for the three and nine months ended September 30, 2019 includes the results of these acquisitions as compared to the historical results of the three and nine months ended September 30, 2018. For a pro forma comparative analysis of 2019 versus 2018 results, refer to the section below titled "Performance Chemicals Pro Forma Financial Results with the Pine Chemical Business and Caprolactone Business."

Three Months Ended September 30, 2019 vs. 2018

Segment net sales for the Performance Chemicals segment were \$229.7 million and \$214.9 million for the three months ended September 30, 2019 and 2018, respectively. The sales increase was driven by favorable volume of \$12.5 million (six percent of sales), which consisted of a favorable increase in engineered polymers (\$32.4 million), which was partially offset by volume declines in industrial specialties (\$12.1 million), oilfield technologies (\$4.4 million) and pavement technologies products (\$3.4 million). Also driving the net sales increase was pricing and product mix of \$3.2 million (one percent of sales) driven by an increase in pavement technologies (\$5.3 million), offset by declines in industrial specialties (\$1.7 million) and oilfield technologies (\$0.4 million). Additionally, unfavorable foreign currency exchange impacted Net sales by \$0.9 million (zero percent of sales).

Segment EBITDA for the Performance Chemicals segment was \$59.8 million and \$49.1 million for the three months ended September 30, 2019 and 2018, respectively. Segment EBITDA increased by \$10.7 million primarily due to increased volumes of \$6.0 million and \$4.3 million of favorable pricing and product mix, as well as favorable SG&A costs of \$3.5 million. These

favorable operating results were partially offset by \$3.1 million of unfavorable manufacturing productivity, primarily driven by higher freight costs.

Nine Months Ended September 30, 2019 vs. 2018

Segment net sales for the Performance Chemicals segment were \$627.1 million and \$567.1 million for the nine months ended September 30, 2019 and 2018, respectively. The sales increase was driven by favorable volume of \$46.8 million (8 percent of sales), which consisted of favorable increase in engineered polymers (\$90.9 million) and oilfield technologies (\$2.1 million); these increases were partially offset by volume declines in industrial specialties (\$40.6 million) and pavement technologies products (\$5.6 million). Also driving the net sales increase was pricing and product mix of \$17.5 million (three percent of sales) driven by industrial specialties (\$9.5 million), oilfield technologies (\$0.8 million), and pavement technologies (\$7.2 million). Additionally, unfavorable foreign currency exchange impacted Net sales by \$4.3 million (zero percent of sales).

Segment EBITDA for the Performance Chemicals segment was \$151.1 million and \$120.7 million for the nine months ended September 30, 2019 and 2018, respectively. Segment EBITDA increased by \$30.4 million primarily due to increased volumes of \$19.5 million and \$19.4 million of favorable pricing and product mix, as well as favorable SG&A costs of \$0.6 million. These favorable operating results were partially offset by \$11.7 million of unfavorable manufacturing productivity, primarily driven by higher freight costs. Additionally, favorable unrealized foreign currency exchange gains and other miscellaneous income impacted Segment EBITDA by \$2.6 million.

Performance Chemicals Pro Forma Financial Results with the Pine Chemical Business and Caprolactone Business

We believe that reviewing our operating results by combining actual and pro forma results for our Performance Chemicals segment is useful in identifying trends in, or reaching conclusions regarding, the overall operating performance. Our pro forma segment information includes adjustments as if the acquisitions had occurred on January 1, 2018. Our pro forma results are adjusted for the effects of acquisition accounting but do not include adjustments for costs related to integration activities, cost savings or synergies that might be achieved by the combined businesses. Pro forma amounts presented are not necessarily indicative of what our results would have been had we operated the Pine Chemical Business and Caprolactone Business since January 1, 2018, nor will the pro forma amounts necessarily be indicative of our future results.

Performance Chemicals Pro Forma Financial Results

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales				
Performance Chemicals, as reported ⁽¹⁾	\$ 229.7	\$ 214.9	\$ 627.1	\$ 567.1
Pine Chemical Business and Caprolactone Business, pro forma ⁽²⁾	—	43.0	17.7	151.1
Pro Forma Combined Net Sales ⁽³⁾	\$ 229.7	\$ 257.9	\$ 644.8	\$ 718.2
Segment EBITDA				
Performance Chemicals, as reported ⁽¹⁾	\$ 59.8	\$ 49.1	\$ 151.1	\$ 120.7
Pine Chemical Business and Caprolactone Business, pro forma ⁽²⁾	—	16.7	5.5	51.1
Pro Forma Combined Segment EBITDA ⁽³⁾	\$ 59.8	\$ 65.8	\$ 156.6	\$ 171.8

(1) As reported amounts are the results of operations of Performance Chemicals, including the results of the Pine Chemical Business and Caprolactone Business, post acquisition dates of March 8, 2018 and February 13, 2019, respectively.

(2) Pro forma amounts include historical results of the Pine Chemical Business and Caprolactone Business, prior to the acquisition dates of March 8, 2018 and February 13, 2019, respectively. These amounts also include adjustments as if the acquisitions had occurred on January 1, 2018, including the effects of purchase accounting. The pro forma amounts do not include adjustments for expenses related to integration activities, cost savings, or synergies that have been or may have been realized had we acquired the businesses on January 1, 2018.

(3) The pro forma combined results are not necessarily indicative of what the results would have been had we acquired the Pine Chemical Business and Caprolactone Business on January 1, 2018, nor are they indicative of future results.

Performance Chemicals Pro Forma Combined Net Sales

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>Oilfield Technologies product line</i>	\$ 27.6	\$ 32.5	\$ 86.5	\$ 88.6
<i>Pavement Technologies product line</i>	69.8	68.1	152.9	152.4
<i>Industrial Specialties product line</i>	99.9	114.3	296.8	346.3
<i>Engineered Polymers product line</i>	32.4	43.0	108.6	130.9
Pro Forma Combined Net Sales - Performance Chemicals	\$ 229.7	\$ 257.9	\$ 644.8	\$ 718.2

Comparison of Three and Nine Months Ended September 30, 2019 vs. 2018

Performance Chemicals (In millions, except percentages)	Percentage change vs. prior year				
	Pro Forma Combined Net sales	Total change	Currency effect	Price/Mix	Volume
Three months ended September 30, 2019	\$ 229.7	(11)%	—%	1%	(12)%
Nine months ended September 30, 2019	\$ 644.8	(10)%	—%	2%	(12)%

Pro Forma Combined Results - Three Months Ended September 30, 2019 vs. 2018

Pro Forma Combined Net Sales for the Performance Chemicals segment were \$229.7 million and \$257.9 million for the three months ended September 30, 2019 and 2018, respectively. The Pro Forma Combined Net Sales decrease was driven by unfavorable volume of \$30.4 million (12 percent of sales), which consisted of unfavorable volumes in industrial specialties (\$12.1 million), engineered polymers (\$10.5 million), pavement technologies (\$3.4 million) and oilfield technologies (\$4.4 million). The decrease in volume was partially offset by improved pricing and product mix of \$3.3 million (one percent of sales), driven by favorable price and product mix in pavement technologies (\$5.3 million), partially offset by declines in industrial specialties (\$1.6 million) and oilfield technologies (\$0.4 million). Additionally, unfavorable foreign currency exchange impacted Pro Forma Combined Net Sales by \$1.1 million (zero percent of sales).

Pro Forma Combined Segment EBITDA for the Performance Chemicals segment was \$59.8 million and \$65.8 million for the three months ended September 30, 2019 and 2018, respectively. Pro Forma Combined Segment EBITDA decreased by \$6.0 million primarily due to decreased volumes of \$14.3 million and increased manufacturing, freight and warehousing costs of \$1.7 million, offset by favorable pricing and product mix of \$4.3 million and \$5.8 million of favorable SG&A costs. Unfavorable foreign currency exchange and other miscellaneous income also impacted Pro Forma Combined Segment EBITDA by \$0.1 million.

Pro Forma Combined Results - Nine Months Ended September 30, 2019 vs. 2018

Pro Forma Combined Net Sales for the Performance Chemicals segment were \$644.8 million and \$718.2 million for the nine months ended September 30, 2019 and 2018, respectively. The Pro Forma Combined Net Sales decrease was driven by unfavorable volume of \$86.6 million (12 percent of sales), which consisted of unfavorable volumes in industrial specialties (\$56.0 million), engineered polymers (\$22.3 million), pavement technologies (\$5.8 million), and oilfield technologies (\$2.5 million). The decrease in volume was partially offset by improved pricing and product mix of \$17.5 million (two percent of sales), driven by favorable price and product mix in industrial specialties (\$9.5 million), oilfield technologies (\$0.8 million), and pavement technologies (\$7.2 million). Additionally, unfavorable foreign currency exchange impact Pro Forma Combined Sales by \$4.3 million (zero percent of sales).

Pro Forma Combined Segment EBITDA for the Performance Chemicals segment was \$156.6 million and \$171.8 million for the nine months ended September 30, 2019 and 2018, respectively. Pro Forma Combined Segment EBITDA decreased by \$15.2 million primarily due to decreased volumes of \$38.0 million and \$6.5 million of increased manufacturing, freight and warehousing costs. These declines were partially offset by favorable pricing and product mix of \$19.4 million, \$8.1 million of favorable SG&A costs, and \$1.8 million due to favorable unrealized foreign currency exchange gains and other miscellaneous income.

Use of Non-GAAP Financial Measure - Adjusted EBITDA

Ingevity has presented the financial measure, Adjusted EBITDA, defined below, which has not been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and has provided a reconciliation to net income, the most directly comparable financial measure calculated in accordance with GAAP. Adjusted EBITDA is not meant to be considered in isolation or as a substitute for the most directly comparable financial measure calculated in accordance with GAAP. Adjusted EBITDA is utilized by management as a measure of profitability.

We believe this non-GAAP financial measure provides management as well as investors, potential investors, securities analysts and others with useful information to evaluate the performance of the business, because such measure, when viewed together with our financial results computed in accordance with GAAP, provides a more complete understanding of the factors and trends affecting our historical financial performance and projected future results. We believe Adjusted EBITDA is a useful measure because it excludes the effects of investment activities as well as non-operating activities.

Adjusted EBITDA is defined as net income (loss) plus provision (benefit) for income taxes, interest expense, net, depreciation, amortization, restructuring and other (income) charges, net, acquisition and other related costs, and pension and postretirement settlement and curtailment (income) charges.

This non-GAAP measure is not intended to replace the presentation of financial results in accordance with GAAP and investors should consider the limitations associated with these non-GAAP measures, including the potential lack of comparability of these measures from one company to another. A reconciliation of Adjusted EBITDA to net income is set forth within this section.

Reconciliation of Net Income (Loss) to Adjusted EBITDA

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss) (GAAP)	\$ 59.9	\$ 51.7	\$ 139.4	\$ 139.7
Interest expense, net	12.1	7.9	36.3	21.8
(Provision) benefit for income taxes	17.5	16.4	33.4	38.5
Depreciation and amortization - Performance Materials	6.0	5.3	17.6	16.7
Depreciation and amortization - Performance Chemicals	15.5	9.4	43.8	25.4
Restructuring and other (income) charges, net	1.7	—	2.0	(0.6)
Acquisition and other related costs ⁽¹⁾	1.3	—	33.3	5.7
Adjusted EBITDA (Non-GAAP)	\$ 114.0	\$ 90.7	\$ 305.8	\$ 247.2

- (1) For the three and nine months ended September 30, 2019, charges relate to the Caprolactone Acquisition and include legal and professional fees of \$1.3 million and \$12.2 million, respectively, and purchase price hedge adjustment of zero and \$12.7 million, respectively. Both are included in "Acquisition-related costs" on the condensed statement of operations. Also included above is the inventory step-up amortization of zero and \$8.4 million for the three and nine months ended September 30, 2019, which is included in "Cost of sales" on the condensed consolidated statement of operations. For the three and nine months ended September 30, 2018, charges relate to the Pine Chemical Acquisition and include legal and professional fees of zero and \$4.3 million, respectively, and inventory step-up amortization of zero and \$1.4 million, respectively, which are included in "Acquisition-related costs" and "Cost of sales" on the condensed consolidated statement of operations, respectively.

Adjusted EBITDA

Three and Nine Months Ended September 30, 2019 vs. 2018

The factors that impacted adjusted EBITDA period to period are the same factors that affected earnings discussed in the Results of Operations and Segment Operating Results sections included within this MD&A.

Total Company Outlook and Fiscal Year 2019 Guidance

For revenue, favorable volume in Performance Materials driven by continued regulatory changes and favorable volume in Performance Chemicals pavement technologies driven by continued chemistry adoption and global growth are expected to be partially offset by lower volume in Performance Chemicals industrial specialties applications as we continue to focus on improving price and mix in those product lines. We expect flat volumes in Performance Chemicals oilfield technologies and are assuming that the price of oil remains stable for West Texas Intermediate during 2019. Adding in the Caprolactone Acquisition as of February

13, 2019, we expect to deliver fiscal year 2019 Net Sales of \$1.28 billion to \$1.30 billion, up 14 percent at the midpoint versus 2018.

Adjusted EBITDA is expected to grow by 22 percent to 25 percent versus 2018. In the Performance Materials segment, growth will be driven by continued volume, price and mix improvements as the U.S. and Canada continue adoption of the Tier 3/LEV III standard, China demand increases with early adoption of China 6 and European demand increases as they implement Euro 6d. This growth will be partially offset by marginally lower vehicle demand in North America, China, and Europe, higher costs as we cycle through the higher cost inventory produced during the Zhuhai, China, facility ramp-up and increased legal costs to defend the Company's intellectual property. In the Performance Chemicals segment, the addition of the Caprolactone Acquisition will be complemented by continued profitable growth in pavement technologies and mix improvements in industrial specialties. We expect these benefits to be partially offset by somewhat lower volumes in industrial specialties, modest inflationary costs in freight, raw materials, and CTO, as well as higher outage costs at the Warrington facility due to planned outages and higher transition service agreement costs as we separate Warrington from Perstorp. Some risks to the 2019 outlook include lower than anticipated North American, Chinese, and European vehicle sales and production, higher non-CTO raw materials costs with higher oil prices, a shift towards smaller vehicles in the U.S. (versus the 2016 to 2018 shift towards light-trucks), lower oil prices and a reduction in oil drilling and production in oilfield technologies, Brexit and ongoing trade and tariff discussions between the U.S. and other countries. We expect to deliver fiscal year 2019 Adjusted EBITDA of \$390 million to \$400 million.

A reconciliation of net income to Adjusted EBITDA as projected for 2019 is not provided. Ingevity does not forecast net income as it cannot, without unreasonable effort, estimate or predict with certainty various components of net income. These components, net of tax, include further restructuring and other income (charges), net; additional acquisition and other related costs in connection with the acquisition of Georgia-Pacific's pine chemical business and Perstorp Holding AB's Capa caprolactone business; additional pension and postretirement settlement and curtailment (income) charges; and revisions due to future guidance and assessment of U.S. tax reform. Additionally, discrete tax items could drive variability in our projected effective tax rate. All of these components could significantly impact such financial measures. Further, in the future, other items with similar characteristics to those currently included in Adjusted EBITDA, that have a similar impact on comparability of periods, and which are not known at this time, may exist and impact Adjusted EBITDA.

Liquidity and Capital Resources

The primary source of liquidity for Ingevity's business is the cash flow provided by operations. Projected 2019 cash flow provided by operations is expected to be \$290 million to \$310 million. We expect our cash flow provided by operations combined with cash on hand and available capacity under our revolving credit facility to be sufficient to meet our working capital needs. Over the next twelve months, we expect to make interest payments, capital expenditures, principal repayments, treasury share repurchases, income tax payments and additional acquisition-related cost payments. We believe these sources will be sufficient to fund our planned operations and meet our interest and other contractual obligations for at least the next twelve months. As of September 30, 2019, our available capacity under our revolving credit facility was \$554.9 million. In addition, we also evaluate and consider strategic acquisitions, and joint ventures, as well as other transactions to create stockholder value and enhance financial performance. Such transactions may require cash expenditures. In connection with such transactions, or to fund other anticipated uses of cash, we may modify our existing Revolving Credit and Term Loan Facilities, seek additional debt financing, issue equity securities, or some combination thereof.

Cash and cash equivalents totaled \$75.6 million at September 30, 2019. Management continuously monitors deposit concentrations and the credit quality of the financial institutions that hold Ingevity's cash and cash equivalents, as well as the credit quality of its insurance providers, customers and key suppliers.

Due to the global nature of our operations, a portion of our cash is held outside the U.S. The cash and cash equivalents balance at September 30, 2019 included \$55.6 million held by our foreign subsidiaries. Cash and earnings of our foreign subsidiaries are generally used to finance our foreign operations and capital expenditures. We believe that our foreign holdings of cash will not have a material adverse impact on our U.S. liquidity. Management does not currently expect to repatriate cash earnings from our foreign operations in order to fund U.S. operations. If these earnings were distributed, such amounts would be subject to U.S. federal income tax at the statutory rate less the available foreign tax credits, if any, and potentially subject to withholding taxes in the various jurisdictions. The potential tax implications of the repatriation of unremitted earnings are driven by facts at the time

of distribution, therefore, it is not practicable to estimate the income tax liabilities that might be incurred if such cash and earnings were repatriated to the U.S.

Other Potential Liquidity Needs

Share Repurchases

On February 20, 2017, our Board of Directors authorized the repurchase of up to \$100.0 million of our common stock. In addition, on November 1, 2018, the Board of Directors approved the authorization for the repurchase of up to an additional \$350.0 million of Ingevity's outstanding common stock. The repurchase program does not include a specific timetable or price targets and may be suspended or terminated at any time. Shares may be purchased through open market or privately negotiated transactions at the discretion of management based on its evaluation of market prevailing conditions and other factors. At September 30, 2019, \$389.5 million remained unused under our Board-authorized repurchase program.

Capital Expenditures

Projected 2019 capital expenditures are expected to be \$110 million to \$120 million.

Cash flow comparison of Nine Months Ended September 30, 2019 and 2018

<i>In millions</i>	Nine Months Ended September 30,	
	2019	2018
Net cash provided (used) by operating activities	\$ 190.2	\$ 166.4
Net cash provided (used) by investing activities	(622.4)	(376.3)
Net cash provided (used) by financing activities	433.6	179.9

Cash flows provided (used) by operating activities

During the first nine months of 2019, cash flow provided by operations increased primarily due to relatively flat inventory balances, exclusive of the Caprolactone Acquisition. Below provides a description of the changes to working capital during the first nine months of 2019 (i.e. current assets and current liabilities).

Current Assets and Liabilities

<i>In millions</i>	September 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 75.6	\$ 77.5
Accounts receivable, net	167.2	118.9
Inventories, net	210.2	191.4
Prepaid and other current assets	46.0	34.9
Total current assets	\$ 499.0	\$ 422.7

Current assets as of September 30, 2019 increased \$76.3 million compared to December 31, 2018 primarily due to increases in accounts receivable and inventories. Accounts receivable, net as of September 30, 2019 increased \$48.3 million, includes \$20.8 million associated with the Caprolactone Business as of September 30, 2019, which is consistent with the higher sales in the quarter ended September 30, 2019 compared to the quarter ended December 31, 2018. Also contributing to the increase in current assets is an increase in Inventories, net. The build in inventories is primarily due to the inclusion of the Caprolactone Business' product inventory of \$15.0 million as of September 30, 2019. See Note 4 in the Condensed Consolidated Financial Statements for more information on the Caprolactone Acquisition and the preliminary purchase price allocation. Additionally, Prepaid and other current

assets increased by \$11.1 million, primarily related to an income tax receivable in the U.S. Cash and cash equivalents was relatively flat as compared to the balances at December 31, 2018.

<i>In millions</i>	September 30, 2019	December 31, 2018
Accounts payable	\$ 107.5	\$ 92.9
Accrued expenses	34.8	36.7
Accrued payroll and employee benefits	23.6	42.0
Current operating lease liabilities	17.6	—
Notes payable and current maturities of long-term debt	22.6	11.2
Income taxes payable	2.7	0.5
Total current liabilities	<u>\$ 208.8</u>	<u>\$ 183.3</u>

Current liabilities as of September 30, 2019 increased by \$25.5 million compared to December 31, 2018 primarily driven by an increase in Accounts payable, Current operating lease liabilities, Income taxes payable, and Notes payable and current maturities of long-term debt, offset by decreases in Accrued expenses and Accrued payroll and employee benefits. The Caprolactone Acquisition contributed \$10.7 million to the increase in Current liabilities as of September 30, 2019.

Cash flows provided (used) by investing activities

Cash used by investing activities in the nine months ended September 30, 2019 was \$622.4 million and was primarily driven by the \$537.9 million purchase of the Caprolactone Business (see Note 4 in the Condensed Consolidated Financial Statements for more information). The remaining cash used by investing activities was primarily driven by capital expenditures. In the nine months ended September 30, 2019 and 2018, capital spending included the base maintenance capital supporting ongoing operations and growth spending primarily related to the construction of Performance Materials activated carbon manufacturing facilities in Changshu, China, Waynesboro, Georgia and Covington, Virginia as well as expansion at our Performance Chemicals Deridder, Louisiana and Warrington, United Kingdom facilities.

Capital expenditure categories

<i>In millions</i>	Nine Months Ended September 30,	
	2019	2018
Maintenance	\$ 27.5	\$ 31.9
Safety, health and environment	7.6	4.6
Growth and cost improvement	44.7	20.1
Total capital expenditures	<u>\$ 79.8</u>	<u>\$ 56.6</u>

Cash flows provided (used) by financing activities

Cash provided by financing activities in the nine months ended September 30, 2019 was \$433.6 million and was driven by net borrowings of \$193.0 million from our revolver and \$375.0 million from the amendment to our Term Loan Facility (refer to Note 10 in the Condensed Consolidated Financial Statements for more information), offset by payments on long-term borrowings of \$117.8 million, tax payments related to withholdings on restricted stock unit vestings of \$14.3 million, and the repurchase of common stock of \$6.4 million. Cash provided by financing activities in the nine months ended September 30, 2018 was \$179.9 million and was primarily driven by the issuance of our 4.50% senior unsecured notes of \$300.0 million, offset by debt issuance costs of \$7.1 million, repurchases of common stock \$18.1 million, noncontrolling interest distributions of \$15.3 million, and \$80.0 million associated with the acquisition of noncontrolling interest.

Contractual Obligations

Information related to our contractual commitments at December 31, 2018 can be found in a table included within Part II, Item 7 of our 2018 Annual Report. During the nine months ended September 30, 2019, pursuant to the terms and conditions set forth in the Caprolactone Agreement, we completed the acquisition of the Caprolactone Business for an aggregate preliminary purchase price of €578.9 million (\$652.5 million), less assumed debt of €100.4 million (\$113.1 million). At closing, the assumed debt was settled with an affiliate of the Seller. The Caprolactone Business is being integrated into our Performance Chemicals segment and is included within our engineered polymers product line. Our revolving credit facility was utilized as the primary source of funds, along with available cash on hand, to fund the acquisition (refer to Note 4 of the Condensed Consolidated Financial Statements for more information). Subsequent to the acquisition, on March 7, 2019, we borrowed \$375.0 million in the form of a new term loan ("Incremental Term A-1 Loans") through an amendment to our Revolving Credit and Term Loan Facilities. The proceeds of the Incremental Term A-1 Loans were used to pay down our revolving credit facility borrowings utilized for the Caprolactone Acquisition (refer to Note 10 of the Condensed Financial Statements for more information). The Incremental Term A-1 Loans are not subject to amortization; the full principal balance is due and payable at maturity on August 7, 2022. As of September 30, 2019, the Incremental Term A-1 Loans bear interest at a rate of 3.11 percent. There have been no other material changes to our contractual commitments during the nine months ended September 30, 2019.

New Accounting Guidance

Refer to the Note 3 to the Condensed Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and expected effects on our Condensed Consolidated Financial Statements.

Critical Accounting Policies

Our Condensed Consolidated Financial Statements are prepared in conformity with GAAP. The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We have described our accounting policies in Note 3 to our Annual Consolidated Financial Statements included in our 2018 Annual Report. We have reviewed these accounting policies, identifying those that we believe to be critical to the preparation and understanding of our financial statements. Critical accounting policies are central to our presentation of results of operations and financial condition and require management to make estimates and judgments on certain matters. We base our estimates and judgments on historical experience, current conditions and other reasonable factors.

The following is a list of those accounting policies that we have deemed most critical to the presentation and understanding of our results of operations and financial condition:

Revenue recognition and Accounts receivables

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)," which supersedes both the revenue recognition requirement to ASC 605 "Revenue Recognition" and most industry-specific guidance. The core principle of the new standard (ASC 606) is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity must also disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. In 2016 and 2017, the FASB issued several ASUs that provided additional clarity on numerous topics as well as providing technical corrections to ASU 2014-09. We adopted this new standard on January 1, 2018, utilizing the modified retrospective method applied to those contracts, which were not completed as of that date. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be presented in accordance with our historic accounting under ASC 605.

Substantially all our revenue is recognized when products are shipped from our manufacturing and warehousing facilities, which represents the point at which control is transferred to the customer. For certain limited contracts, where we are producing

goods with no alternative use and for which we have an enforceable right to payment for performance completed to date, we are recognizing revenue as goods are manufactured, rather than when they are shipped.

Sales net of returns and customer incentives are based on the sale of manufactured products. Net sales are recognized when obligations under the terms of a contract with our customer are satisfied; generally, this occurs with the transfer of control of our products. Since net sales are derived from product sales only, we have disaggregated our net sales by our product lines within each reportable segment. Net sales are measured as the amount of consideration we expect to receive in exchange for transferring goods. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Sales returns and allowances are not a normal practice in the industry and are not significant. Certain customers may receive cash-based incentives, including discounts and volume rebates, which are accounted for as variable consideration and included in Net sales. Shipping and handling fees billed to customers continue to be included with Net sales. If we pay for the freight and shipping, we recognize the cost when control of the product has transferred to the customer as an expense in Cost of sales on the condensed consolidated statement of operations. Although very rare, from time to time we incur expenses to obtain a sales contract. In these cases, if these costs are for orders that are fulfilled in one year or less, we expense these costs as they are incurred. Because the period between when we transfer a promised good to a customer and when the customer pays for that good will be one year or less, we elect not to adjust the promised amount of consideration for the effects of any financing component, as it is not significant.

Accounts receivables consist of amounts owed to Ingevity from customer sales and are recorded at the invoiced amounts when revenue is recognized and generally do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable loss in the existing accounts receivable. We determine the allowance based on historical write-off experience, current collection trends, and external business factors such as economic factors, including regional bankruptcy rates, and political factors. Past due balances over a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance when it is probable that the receivable will not be recovered.

Valuation of tangible and intangible long-lived assets and goodwill

Our long-lived assets primarily include property, plant and equipment and other intangible assets. We periodically evaluate whether current events or circumstances indicate that the carrying value of long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to carrying value to determine whether an impairment exists.

If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. We report an asset to be disposed of at the lower of its carrying value or its estimated net realizable value.

Goodwill represents the excess of cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. We review the recorded value of goodwill at least annually at October 1, or sooner if events or changes in circumstances indicate that the fair value of a reporting unit is below its carrying value. A reporting unit is the level at which discrete financial information is available and reviewed by business management on a regular basis. An impairment exists when the carrying value of a reporting unit exceeds its fair value. Our reporting units are our operating segments, i.e. Performance Chemicals and Performance Materials. If an indication exists that the fair value of a reporting unit with goodwill is less than its carrying value, a quantitative goodwill impairment test is performed. The fair value of each reporting unit is estimated primarily using an income approach, specifically the discounted cash flow method. The following assumptions are key to the income approach: 1) cash flow and earnings projections; 2) growth rates; 3) discount rates; 4) income tax rates; and, 5) terminal value rates.

The factors we considered in developing our estimates and projections for cash flows and earnings include, but are not limited to, the following: (i) macroeconomic conditions; (ii) industry and market considerations; (iii) costs, such as increases in raw materials, labor, or other costs; (iv) our overall financial performance; and, (v) other relevant entity-specific events that impact our reporting units. The discount rate we used represents the weighted average cost of capital for the reporting units, considering the risks and uncertainty inherent in the cash flows of the reporting units and in our internally-developed forecasts.

The determination of whether goodwill is impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the estimated fair values of our reporting units. We believe that the assumptions and rates used in our impairment assessment are reasonable; however, these assumptions are judgmental and variations in any assumptions could result in materially different calculations of fair value. We will continue to evaluate goodwill on an annual basis as of October 1, and whenever events or changes in circumstances, such as significant adverse changes in operating results, market conditions, or changes in management's business strategy indicate that there may be a probable indicator of impairment. It is possible that the assumptions used by management related to the evaluation may change or that actual results may vary significantly from management's estimates.

Business Combinations

We account for business combinations in accordance with ASC 805 "Business Combinations" which requires, among other things, the acquiring entity in a business combination to recognize the fair value of the assets acquired and liabilities assumed; the recognition of acquisition-related costs in the consolidated results of operations; the recognition of restructuring costs in the consolidated results of operations for which the acquirer becomes obligated after the acquisition date; and contingent purchase consideration to be recognized at fair value on the acquisition date with subsequent adjustments recognized in the consolidated results of operations. We generally use third party qualified consultants to assist management in determination of the fair value of assets acquired and liabilities assumed. This includes, when necessary, assistance with the determination of lives and valuation of property and identifiable intangibles, assisting management in determining the fair value of obligations associated with employee related liabilities and assisting management in assessing obligations associated with legal and environmental claims.

The fair values assigned to identifiable intangible assets acquired are determined primarily by using an income approach, which is based on assumptions and estimates made by management. Significant assumptions utilized in the income approach are the attrition rate, growth rates and discount rate. These assumptions are based on company specific information and projections, which are not observable in the market and are therefore considered Level 2 and Level 3 measurements. The excess of the purchase price over the fair value of the identified assets and liabilities is recorded as goodwill. Based on the acquired business' end markets and products as well as how the chief operating decision maker will review the business results determines the most appropriate operating segment for which to integrate the acquired business. Goodwill acquired, if any, is allocated to the reporting unit within or at the operating segment for which the acquired business will be integrated. Operating results of the acquired entity are reflected in the Condensed Consolidated Financial Statements from date of acquisition.

Income taxes

We are subject to income taxes in the United States and numerous foreign jurisdictions, including China. The provision for income taxes includes income taxes paid, currently payable or receivable, and deferred taxes. We follow the liability method of accounting for income taxes in accordance with current accounting standards regarding the accounting for income taxes. Under this method, deferred income taxes are recorded based upon the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect at the time the underlying assets or liabilities are recovered or settled. The ability to realize deferred tax assets is evaluated through the forecasting of taxable income, historical and projected future operating results, the reversal of existing temporary differences, and the availability of tax planning strategies. Valuation allowances are recognized to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. We do not provide income taxes on undistributed earnings of consolidated foreign subsidiaries as it is our intention that such earnings will remain invested in those companies.

We recognize income tax positions that are more likely than not to be realized and accrue interest related to unrecognized income tax positions, which is included as a component of the income tax provision, on the condensed consolidated statements of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency exchange rate risk

We have foreign-based operations, primarily in Europe, South America and Asia, which accounted for approximately 21 percent of our net sales in the first nine months of 2019. Ingevity's significant operations outside the U.S. have designated the local currency as their functional currency. The primary currencies for which we have exchange rate exposure are the U.S. dollar versus the euro, the Japanese yen and the Chinese renminbi. In addition, certain of our domestic operations have sales to foreign customers. In the conduct of our foreign operations, we also make inter-company sales. All of this exposes us to the effect of changes in foreign currency exchange rates. Our earnings are therefore subject to change due to fluctuations in foreign currency exchange rates when the earnings in foreign currencies are translated into U.S. dollars. Foreign exchange forward contracts are used to hedge firm and highly anticipated foreign currency cash flows. The U.S. dollar versus the euro is our most significant foreign currency exposure. A hypothetical 10 percent change in the average euro to U.S. dollar exchange rate during the nine months ended September 30, 2019, would have changed our net sales and income before income taxes by approximately \$9.7 million or one percent and \$3.1 million or two percent, respectively.

Interest rate risk

Our Revolving Credit Facility and Term Loan Facility each include a variable interest rate component. As a result, we are subject to interest rate risk with respect to such floating-rate debt. A 100 basis point increase in the variable interest rate component of our borrowings as of September 30, 2019 would increase our annual interest expense by approximately \$9.4 million or 18 percent.

In the second quarter of 2019, we entered into a floating-to-fixed interest rate swap for an initial aggregate notional amount of \$141.3 million to limit exposure to interest rate increases related to a portion of the Company's floating rate indebtedness. This swap agreement hedges a portion of contractual floating rate interest through its expiration in July 2023. As a result, the Company's effective fixed interest rate on the notional amount floating rate indebtedness will be 3.96% through May 2021. The fair value of this instrument at September 30, 2019 was a liability of \$5.0 million.

Other market risks

Information about our other remaining market risks for the period ended September 30, 2019 does not differ materially from that discussed under Item 7A of our 2018 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

Ingevity maintains a system of disclosure controls and procedures designed to give reasonable assurance that information required to be disclosed in Ingevity's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

As of September 30, 2019, Ingevity's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), together with management, conducted an evaluation of the effectiveness of Ingevity's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures are effective at the reasonable assurance level described above. As further discussed in Note 4 to the Condensed Consolidated Financial Statements included within this Form 10-Q, we completed the acquisition of the Caprolactone Business on February 13, 2019. We have begun the process of analyzing the related systems of disclosure controls and procedures and internal controls over financial reporting and integrating them within our framework of controls. Accordingly, pursuant to SEC guidance that an assessment of a recently acquired business may be omitted from the scope of an assessment for up to one year following the date of acquisition, the scope of our assessment of the effectiveness of our disclosure controls and procedures does not include any disclosure controls and procedures of the Caprolactone Business.

b) Changes in Internal Control over Financial Reporting

There has been no change in Ingevity's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, Ingevity's internal control over financial reporting. The Company is currently evaluating the Caprolactone Business' processes, information technology systems, and other components of internal controls over financial reporting as a part of the Company's integration activities which may result in periodic control changes. Such changes will be disclosed as required by applicable SEC guidance.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are, from time to time, involved in routine litigation and other legal matters incidental to our operations. None of the litigation or other legal matters in which we are currently involved, individually or in the aggregate, is material to our consolidated financial condition, liquidity, or results of operations nor are we aware of any material pending or contemplated proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes in Ingevity's risk factors discussed in Item 1A of the 2018 Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

On February 20, 2017, our Board of Directors authorized the repurchase of up to \$100 million of our common stock. On November 1, 2018, our Board of Directors approved the authorization for the repurchase of up to an additional \$350 million of Ingevity's outstanding common stock. The approval of this \$350 million is in addition to the \$100 million share repurchase program approved in February 2017. The repurchase program does not include a specific timetable or price targets and may be suspended or terminated at any time. Shares may be purchased through open market or privately negotiated transactions at the discretion of management based on its evaluation of market prevailing conditions and other factors.

Below is a summary of shares repurchased under the publicly announced repurchase program during the period.

Period	ISSUER PURCHASES OF EQUITY SECURITIES				
	Total Number of Shares Purchased	Average Price Paid Per Share	Publicly Announced Program		
			Cumulative Number of Shares Purchased	Total Dollar Amount Purchased	Maximum Dollar Value of Shares that May Yet be Purchased
July 1-31, 2019	—	\$ —	—	\$ —	\$ 392,670,401
August 1-31, 2019	40,300	77.74	40,300	3,132,956	389,537,445
September 1-30, 2019	—	—	—	—	389,537,445
Total	40,300	\$ —	40,300	\$ 3,132,956	\$ 389,537,445

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
<u>3.1*</u>	Second Amended and Restated Certificate of Incorporation of Ingevity Corporation (incorporated by reference to Exhibit 3.1 to Form 8-K (File No. 001-37586) filed April 25, 2019).
<u>3.2*</u>	Amended and Restated Bylaws of Ingevity Corporation (incorporated by reference to Exhibit 3.2 to Form 8-K (File No. 001-37856) filed April 25, 2019).
<u>10.1+</u>	Ingevity Corporation Amended & Restated 2016 Omnibus Incentive Plan, effective May 16, 2016 and restated July 31, 2019.
<u>31.1</u>	Rule 13a-14(a)/15d-14(a) Certification of the Company's Principal Executive Officer.
<u>31.2</u>	Rule 13a-14(a)/15d-14(a) Certification of the Company's Principal Financial Officer.
<u>32.1</u>	Section 1350 Certification of the Company's Principal Executive Officer. The information contained in this Exhibit shall not be deemed filed with the Securities and Exchange Commission nor incorporated by reference in any registration statement filed by the registrant under the Securities Act of 1933, as amended.
<u>32.2</u>	Section 1350 Certification of the Company's Principal Financial Officer. The information contained in this Exhibit shall not be deemed filed with the Securities and Exchange Commission nor incorporated by reference in any registration statement filed by the registrant under the Securities Act of 1933, as amended.
101	Inline XBRL Instance Document and Related Items - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	The cover page from the Company's Quarterly Report on Form 10-Q formatted in Inline XBRL (included in Exhibit 101).

*Incorporated by reference

+ Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INGEVITY CORPORATION

(Registrant)

By: /S/ JOHN C. FORTSON

John C. Fortson

Executive Vice President, Chief Financial Officer & Treasurer

(Principal Financial Officer and Duly Authorized Officer)

Date: October 29, 2019

**INGEVITY CORPORATION
AMENDED & RESTATED
2016 OMNIBUS INCENTIVE PLAN**

Effective May 16, 2016 / Restated July 31, 2019

**Section 1
Purpose and Objectives**

The primary purposes of the Plan are (a) to reward selected corporate officers, key employees and non-employee directors of the Company and its Subsidiaries by enabling them to acquire shares of common stock of the Company and/or through the provision of long term and short term cash payments, and (b) to assume and govern other awards pursuant to the adjustment of awards granted under any Parent Long-Term Incentive Plan (as defined in the Employee Matters Agreement) in accordance with the terms of the Employee Matters Agreement (“Adjusted Awards”). The Plan is designed to attract and retain employees and non-employee directors of the Company and its Subsidiaries and to encourage a sense of proprietorship in the Company and its Subsidiaries.

**Section 2
Definitions**

As used herein, the terms set forth below shall have the following respective meanings:

(a) “*409(A) CIC*” means the consummation of a “change in ownership” of the Company, a “change in effective control” of the Company or a “change in the ownership of a substantial portion of the assets” of the Company, and in each case, as defined under Code Section 409A.

(b) “*Authorized Officer*” means the Chairman of the Board, the Chief Executive Officer of the Company or the Chief Human Resources Officer of the Company (or any other senior officers of the Company to whom any of such individuals shall delegate the authority to execute any Award Agreement).

(c) “*Adjusted Awards*” has the meaning set forth in Section 1.

(d) “*Applicable Pro-Ration Factor*” has the meaning set forth in Section 14.2(b).

(e) “*Award*” means the grant of any Option, Stock Appreciation Right, Stock Award, or Cash Award, any of which may be structured as a Performance Award, whether granted singly, in combination or in tandem, to a Participant pursuant to such applicable terms, conditions, and limitations as the Committee may establish in accordance with the objectives of this Plan. The term Award shall include Adjusted Awards.

(f) “*Award Agreement*” means the document (in written or electronic form) communicating the terms, conditions and limitations applicable to an Award. The Committee may, in its discretion, require that the Participant execute such Award Agreement, or may provide for procedures through which Award Agreements are made available but not executed. Any Participant who is granted an Award and who does not affirmatively reject the applicable Award Agreement shall be deemed to have accepted the terms of Award as embodied in the Award Agreement.

(g) “*Board*” means the Board of Directors of the Company.

(h) “*Business Combination*” has the meaning set forth in Section 14.5(c)

(i) “*Cash Award*” means an Award denominated in cash.

(j) “*Cause*” means, unless otherwise provided in an Award Agreement, (i) “*Cause*” as defined in any individual agreement to which the applicable Participant is a party, or (ii) if there is no such individual agreement or if it does not define Cause: (A) the willful or gross neglect by a Participant of his employment duties; (B) the plea of guilty or nolo contendere to, or conviction for, the commission of a felony offense by a Participant; (C) a material breach by a Participant of a fiduciary duty owed to the Company or any of its Subsidiaries; or (D) a material breach by a Participant of any nondisclosure, non-solicitation or non-competition obligation owed to the Company or any of its Subsidiaries.

(k) “*Change in Control*” has the meaning set forth in Section 14.5.

(l) “*Code*” means the Internal Revenue Code of 1986, as amended from time to time.

(m) “*Committee*” means the Compensation Committee of the Board, and any successor committee thereto or such other committee of the Board as may be designated by the Board to administer this Plan in whole or in part including any subcommittee of the Board as designated by the Board.

(n) “*Common Stock*” means the Common Stock of the Company.

(o) “*Company*” means Ingevity Corporation or any successor thereto.

(p) “*Corporate Transaction*” has the meaning set forth in Section 4.1(d)(i).

(q) “*Disability*” means, unless otherwise provided in an Award Agreement, a disability that entitles the Employee to benefits under the Company’s long-term disability plan, as may be in effect from time to time, as determined by the plan administrator of the long-term disability plan, or if the Employee is not a participant under the Company’s long-term disability plan, as determined if the Employee were a participant in a long-term disability plan that covers similarly situated employees. Notwithstanding the foregoing, if an Award is subject to Code Section 409A and Disability is a payment event, the definition of Disability shall conform to the requirements of Treasury Regulation § 1.409A-3(i)(4)(i).

(r) “*Disaffiliation*” means a Subsidiary ceasing to be a Subsidiary for any reason (including, without limitation, as a result of a public offering, or a spinoff or sale by the Company, of the stock of the Subsidiary) or a sale of a division of the Company.

(s) “*Dividend Equivalents*” means, in the case of Restricted Stock Units or Performance Units, an amount equal to all dividends and other distributions (or the economic equivalent thereof) that are payable to shareholders of record during the Restriction Period or performance period, as applicable, on a like number of shares of Common Stock that are subject to the Award.

(t) “*Effective Date*” has the meaning set forth in Section 16(a).

(u) “*Employee*” means an employee of the Company or any of its Subsidiaries.

(v) “*Employee Matters Agreement*” means the employee matters agreement entered into in between WRK and the Company.

(w) “*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time.

(x) “*Exercise Price*” means the price at which a Participant may exercise his right to receive cash or Common Stock, as applicable, under the terms of an Award.

(y) “*Fair Market Value*” of a share of Common Stock means, as of a particular date, (i) if shares of Common Stock are listed on a national securities exchange, the closing sales price per share of Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (ii) if the Common Stock is not so listed, the average of the closing bid and asked price on that date, or, if there are no quotations available for such date, on the last preceding date on which such quotations shall be available, as reported by an inter-dealer quotation system, (iii) if shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Committee for such purpose, or (iv) if none of the above are applicable, the fair market value of a share of Common Stock as determined in good faith by the Committee.

(z) “*Fiscal Year*” means the calendar year of the Company.

(aa) “*Good Reason*” means (i) “Good Reason” as defined in any individual agreement or Award Agreement to which the applicable Participant is a party, or (ii) if there is no such individual agreement or if it does not define Good Reason, without the Participant’s prior written consent: (A) a material reduction in the Participant’s rate of annual base salary from the rate of annual base salary in effect for such Participant immediately prior to the Change in Control, (B) a relocation of the Participant’s principal place of business more than 35 miles from the city in which such Participant’s principal place of business was located immediately prior to the Change in Control or (C) a material and demonstrable adverse change in the nature and scope of the Participant’s duties from those in effect immediately prior to the Change in Control. In order to invoke a termination of employment for Good Reason, a Participant shall provide written notice to the Company of the existence of one or more of the conditions described in clauses (A) through (C) within 90 days following the Participant’s knowledge of the initial existence of such condition or conditions, and the Company shall have 30 days following receipt of such written notice (the “*Cure Period*”) during which it may remedy the condition. In the event that the Company fails to remedy the condition constituting Good Reason during the Cure Period, the Participant must terminate employment, if at all, within 90 days following the Cure Period in order for such Termination of Employment to constitute a Termination of Employment for Good Reason.

(bb) “*Grant Date*” means (i) the date on which the Committee by resolution selects an eligible individual to receive a grant of an Award and determines the number of shares of Common Stock to be subject to such Award or the formula for earning a number of shares or cash amount, (ii) such later date as the Committee shall provide in such resolution or (iii) the initial date on which an Adjusted Award was granted under the applicable Parent Long-Term Incentive Plan.

(cc) “*Incumbent Board*” has the meaning set forth in Section 14.5(b)

(dd) “*Incentive Stock Option*” means an Option that is intended to comply with the requirements set forth in Code Section 422.

- (ee) “*Non-Employee Director*” means anyone who serves on the Board, other than any employee of the Company.
- (ff) “*Nonqualified Stock Option*” means an Option that is not intended to comply with the requirements set forth in Code Section 422.
- (gg) “*Option*” means a right to purchase a specified number of shares of Common Stock at a specified Exercise Price, which is either an Incentive Stock Option or a Nonqualified Stock Option.
- (hh) “*Outstanding Common Stock*” has the meaning set forth in Section 14.5(a).
- (ii) “*Outstanding Voting Securities*” has the meaning set forth in Section 14.5(a).
- (jj) “*Participant*” means an Employee or Non-Employee Director to whom an Award has been made under this Plan.
- (kk) “*Performance Award*” means an Award made pursuant to this Plan to a Participant which is subject to the attainment of one or more Performance Goals. A Performance Award may be in the form of Performance Unit Awards, Restricted Stock Awards, Options, SARs or Cash Awards.
- (ll) “*Performance Goal*” means one or more standards established by the Committee to determine in whole or in part whether a Performance Award shall be earned.
- (mm) “*Performance Unit*” means a unit evidencing the right to receive in specified circumstances cash or shares of Common Stock or equivalent value of Common Stock in cash, the value of which at the time it is settled is determined as a function of the extent to which established performance criteria have been satisfied. Performance Units may take the form of performance-based Restricted Stock Units or Cash Awards.
- (nn) “*Performance Unit Award*” means an Award in the form of Performance Units.
- (oo) “*Person*” has the meaning set forth in Section 14.5(a)
- (pp) “*Qualified Performance Awards*” has the meaning set forth in Section 13.2.
- (qq) “*Qualified Termination of Employment*” means a termination of employment by the Company without Cause, other than as a result of death or disability, or a termination of employment by a Participant for Good Reason.
- (rr) “*Replaced Award*” has the meaning set forth in Section 14.3.
- (ss) “*Replacement Award*” has the meaning set forth in Section 14.3.
- (tt) “*Restricted Stock*” means a share of Common Stock that is restricted or subject to forfeiture provisions.
- (uu) “*Restricted Stock Award*” means an Award in the form of Restricted Stock.
- (vv) “*Restricted Stock Unit*” means a unit evidencing the right to receive in specified circumstances one share of Common Stock or equivalent value in cash that is restricted or subject to forfeiture provisions.

(ww) “*Restricted Stock Unit Award*” means an Award in the form of Restricted Stock Units.

(xx) “*Restriction Period*” means a period of time beginning as of the date upon which an Award is made pursuant to this Plan and ending as of the date upon which such Award is no longer restricted or subject to forfeiture provisions.

(yy) “*Share Change*” has the meaning set forth in Section 4.1(d)(ii).

(zz) “*Stock Appreciation Right*” or “*SAR*” means a right to receive a payment, in cash or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the right is exercised over a specified Exercise Price.

(aaa) “*Stock Award*” means an Award in the form of shares of Common Stock, including a Restricted Stock Award, and a Restricted Stock Unit Award or Performance Unit Award that may be settled in shares of Common Stock, and excluding Options and SARs.

(bbb) “*Stock-Based Award Limitations*” has the meaning set forth in Section 4.3.

(ccc) “*Subsidiary*” means any corporation, partnership, association, joint stock company, business trust, unincorporated organization or other entity that the Company controls directly or indirectly through one or more intermediaries.

(ddd) “*WRK*” means WestRock Company.

Section 3

Eligibility

All Employees and Non-Employee Directors are eligible for Awards under this Plan. The Committee shall determine the type or types of Awards to be made under this Plan and shall designate from time to time the Employees and Non-Employee Directors who are to be granted Awards under this Plan.

Section 4

Shares Subject to Awards and other Plan Limits

4.1 *Common Stock Available for Awards.*

(a) Plan Maximums. The maximum number of shares of Common Stock that may be delivered pursuant to Awards under the Plan shall be 4,000,000 shares of Common Stock. The maximum number of shares of Common Stock that may be granted pursuant to Options intended to be Incentive Stock Options shall be 4,000,000 shares of Common Stock. Shares of Common Stock subject to an Award under the Plan may be authorized and unissued shares or may be treasury shares.

(b) Individual Limits.

(i) During a calendar year, no single Participant (excluding Non-Employee Directors) may be granted:

(A) Options or Stock Appreciation Rights covering in excess of 150,000 shares of Common Stock in the aggregate; or

(B) Qualified Performance Awards (other than Options or Stock Appreciation Rights) covering in excess of 150,000 shares of Common Stock in the aggregate.

(ii) During a calendar year, no single Participant who is a Non-Employee Director may be granted stock-based Awards having a fair market value in excess of \$250,000 on the date of grant. For purposes of this Section 4.1(b), the value of an Option or Stock Appreciation Right shall be determined in accordance with the Black-Scholes or other pricing model used to determine stock option values in the Company's most recent annual report on Form 10-K and the value of any other stock-based Award shall be determined based on the Fair Market Value on the grant date of the Award.

(c) Rules for Calculating Shares Delivered.

(i) With respect to Awards, other than Adjusted Awards, to the extent that any Award is forfeited, terminates, expires or lapses without being exercised, or any Award is settled for cash, the shares of Common Stock subject to such Award not delivered as a result thereof shall again be available for Awards under the Plan.

(ii) Shares of Common Stock that are tendered by a Participant or withheld as full or partial payment to satisfy withholding taxes shall not become available again for issuance under this Plan.

(iii) Shares of Common Stock that are tendered by a Participant or withheld as full or partial payment for the Exercise Price of an Award shall not become available again for issuance under this Plan.

(d) Adjustment Provisions.

(i) In the event of a merger, consolidation, acquisition of property or shares, stock rights offering, liquidation, disposition for consideration of the Company's direct or indirect ownership of a Subsidiary (including by reason of a Disaffiliation), or similar event affecting the Company or any of its Subsidiaries (each, a "*Corporate Transaction*"), the Committee or the Board may in its discretion make such substitutions or adjustments as it deems appropriate and equitable to (A) the aggregate number and kind of shares or other securities reserved for issuance and delivery under the Plan, (B) the various maximum limitations set forth in Sections 4.1(a) and 4.1(b) upon certain types of Awards and upon the grants to individuals of certain types of Awards, (C) the number and kind of shares or other securities subject to outstanding Awards; and (D) the exercise price of outstanding Options and Stock Appreciation Rights.

(ii) In the event of a stock dividend, stock split, reverse stock split, reorganization, share combination, or recapitalization or similar event affecting the capital structure of the Company or a Disaffiliation, separation or spinoff, in each case without consideration, or other extraordinary dividend of cash or other property (each, a "*Share Change*"), the Committee or the Board shall make such substitutions or adjustments as it deems appropriate and equitable to (A) the aggregate number and kind of shares or other securities reserved for issuance and delivery under the Plan, (B) the various maximum limitations set forth in Sections 4.1(a) and 4.1(b) upon certain types of Awards and upon the grants to individuals of certain types of Awards, (C) the number and kind of shares or other

securities subject to outstanding Awards; and (D) the exercise price of outstanding Options and Stock Appreciation Rights.

(iii) In the case of Corporate Transactions, the adjustments contemplated by clause (i) of this paragraph (d) may include, without limitation, (A) the cancellation of outstanding Awards in exchange for payments of cash, property or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Committee or the Board in its sole discretion (it being understood that in the case of a Corporate Transaction with respect to which holders of Common Stock receive consideration other than publicly traded equity securities of the ultimate surviving entity, any such determination by the Committee that the value of an Option or Stock Appreciation Right shall for this purpose be deemed to equal the excess, if any, of the value of the consideration being paid for each share of Common Stock pursuant to such Corporate Transaction over the exercise price of such Option or Stock Appreciation Right shall conclusively be deemed valid), (B) the substitution of other property (including, without limitation, cash or other securities of the Company and securities of entities other than the Company) for the shares of Common Stock subject to outstanding Awards, and (C) in connection with any Disaffiliation, arranging for the assumption of Awards, or replacement of Awards with new awards based on other property or other securities (including, without limitation, other securities of the Company and securities of entities other than the Company), by the affected Subsidiary or division or by the entity that controls such Subsidiary, or division following such Disaffiliation (as well as any corresponding adjustments to Awards that remain based upon Company securities). Any adjustments made pursuant to this Section 4.1(d) to Awards that are considered “deferred compensation” within the meaning of Section 409A of the Code shall be made in compliance with the requirements of Section 409A of the Code. Any adjustments made pursuant to this Section 4.1(d) to Awards that are not considered “deferred compensation” subject to Section 409A of the Code shall be made in such a manner as to ensure that after such adjustment, the Awards either (A) continue not to be subject to Section 409A of the Code or (B) comply with the requirements of Section 409A of the Code.

(iv) Any adjustment under this Section 4.1(d) need not be the same for all Participants.

(e) No Employee may be granted during any calendar year (1) Cash Awards or (2) Restricted Stock Unit Awards or Performance Unit Awards that may be settled solely in cash having a value determined on the Grant Date in excess of \$4,000,000.

Section 5

Administration

5.1 Authority of the Committee; Qualifications. Except as otherwise provided in this Plan with respect to actions or determinations by the Board, this Plan shall be administered by the Committee, subject to the following:

(a) The members of the Committee shall satisfy any independence requirements prescribed by any stock exchange on which the Company lists its Common Stock;

(b) Awards may be granted to individuals who are subject to Section 16(b) of the Exchange Act only if the Committee is comprised solely of two or more “Non-Employee Directors” as defined in Securities and Exchange Commission Rule 16b-3 (as amended from time to time, and any successor rule, regulation or statute fulfilling the same or similar function); and

(c) Any Award intended to qualify for the “performance-based compensation” exception under Code Section 162(m) shall be granted only if the Committee is comprised solely of two or more “outside directors” within the meaning of Code Section 162(m) and regulations pursuant thereto.

5.2 Powers. Subject to the provisions hereof, the Committee shall have full and exclusive power and authority to administer this Plan and to take all actions that are specifically contemplated hereby or are necessary or appropriate in connection with the administration hereof. The Committee shall also have full and exclusive power to interpret this Plan and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of this Plan. Subject to Sections 5.4, 6.2 and 6.3 hereof, the Committee may, in its discretion:

- (a) select the eligible individuals to whom Awards may from time to time be granted;
- (b) determine whether and to what extent different forms of Awards are to be granted hereunder;
- (c) determine the number of shares of Common Stock to be covered by each Award granted hereunder or the amount of any cash-based award;
- (d) determine the terms and conditions of each Award granted hereunder, based on such factors as the Committee shall determine;
- (e) subject to Section 16, modify, amend or adjust the terms and conditions of any Award, at any time or from time to time;
- (f) adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable;
- (g) accelerate the vesting or lapse of restrictions of any outstanding Award, based in each case on such considerations as the Committee in its sole discretion determines;
- (h) interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreement relating thereto);
- (i) establish any “blackout” period that the Committee in its sole discretion deems necessary or advisable;
- (j) decide all other matters that must be determined in connection with an Award; and
- (k) otherwise administer the Plan.

5.3 Final and Binding. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Award Agreement in the manner and to the extent the Committee deems necessary or desirable to further this Plan’s purposes. Any decision of the Committee in the interpretation and administration of this Plan shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned.

5.4 Prohibition on Repricing of Awards. In no event may any Option or Stock Appreciation Right granted under this Plan be amended, other than pursuant to Section 4.1, to decrease the exercise price

thereof, be cancelled in exchange for cash or other Awards or in conjunction with the grant of any new Option or Stock Appreciation Right with a lower exercise price or otherwise be subject to any action that would be treated under the applicable listing standards or for accounting purposes, as a “repricing” of such Option or Stock Appreciation Right, unless such amendment, cancellation, or action is approved by the Company’s stockholders.

5.5 *Delegation of Authority*. Subject to Delaware law, the Committee may delegate any of its authority to the Board, to any other committee of the Board or to an Authorized Officer to grant Awards to Employees who are not subject to Section 16(b) of the Exchange Act; provided that the requirements of Section 5.1 are met. Such delegation shall be made in writing specifically setting forth such delegated authority. As permitted by Delaware law, the Committee may also delegate to an Authorized Officer authority to execute on behalf of the Company any Award Agreement. The Committee and the Board, as applicable, may engage or authorize the engagement of a third party administrator to carry out administrative functions under this Plan.

Section 6

Awards

6.1 *Grants*. Awards may be granted under the Plan to eligible individuals and, with respect to Adjusted Awards, in accordance with the terms of the Employee Matters Agreement.

6.2 *Award Agreements*. Each Award shall be embodied in an Award Agreement, which shall contain such terms, conditions and limitations as shall be determined by the Committee, in its sole discretion, and, if required by the Committee, shall be signed by the Participant to whom the Award is granted and by an Authorized Officer for and on behalf of the Company. Awards may consist of those listed in Sections 7-13 and may be granted singly, in combination or in tandem. Awards may also be made in combination or in tandem with, in replacement of, or as alternatives to, grants or rights under this Plan or any other plan of the Company or any of its Subsidiaries, including the plan of any acquired entity. Upon the termination of employment by a Participant who is an Employee, any unexercised, unvested or unpaid Awards shall be treated as set forth in the applicable Award Agreement.

6.3 *Vesting Limitations*. Except as otherwise provided below, any Stock Award, Option or Stock Appreciation Right that

- (a) is not a Performance Award shall have a minimum Restriction Period of one year from the date of grant; or
- (b) is a Performance Award shall have a minimum performance period of one year from the date of grant;

provided, however, that (1) the Committee may provide for earlier vesting (x) to the extent provided for in an Employee’s employment agreement with the Company or any Subsidiary that was effective prior the Effective Date, (y) upon an Employee’s termination of employment by reason of death, Disability, retirement, involuntary termination without cause or voluntary termination for good reason, and (z) upon a Change in Control and (2) vesting of a Stock Award, Option or Stock Appreciation Right may occur incrementally over the Restriction Period or minimum performance period, as applicable.

6.4 *Payment of Awards*. Payment of Awards may be made in the form of cash or Common Stock, or a combination thereof, and may include such restrictions as the Committee shall determine, including, but

not limited to, in the case of Common Stock, restrictions on transfer and forfeiture provisions. For a Restricted Stock Award, the certificates evidencing the shares of such Restricted Stock (to the extent that such shares are so evidenced) shall contain appropriate legends and restrictions that describe the terms and conditions of the restrictions applicable thereto. For a Restricted Stock Unit Award that may be settled in shares of Common Stock, the shares of Common Stock that may be issued at the end of the Restriction Period shall be evidenced by book entry registration or in such other manner as the Committee may determine.

6.5 Dividends and Dividend Equivalents. Rights to dividends will be extended to and made part of any Restricted Stock Award and Dividend Equivalents may, in the Committee's discretion, be extended to and made part of any Restricted Stock Unit Award and Performance Unit Award, subject in each case to such terms, conditions and restrictions as the Committee may establish; *provided, however*, that no such dividends or Dividend Equivalents shall be paid with respect to unvested Stock Awards, including Stock Awards subject to Performance Goals. Dividends and/or Dividend Equivalents shall not be extended to any Options or SARs.

Section 7

Options

7.1 General. An Award may be in the form of an Option. An Option awarded pursuant to this Plan may consist of either an Incentive Stock Option or a Nonqualified Stock Option. The price at which shares of Common Stock may be purchased upon the exercise of an Option shall be not less than the Fair Market Value of the Common Stock on the Grant Date. The term of an Option shall not exceed 10 years from the Grant Date. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Option, including, but not limited to, the term of any Option and the date or dates upon which the Option becomes vested and exercisable, shall be determined by the Committee and subject to the applicable requirements described in Section 6 hereof.

7.2 Option Exercise. The Exercise Price shall be paid in full at the time of exercise in cash or, if permitted by the Committee and elected by the Participant, the Participant may pay the exercise price by means of the Company withholding shares of Common Stock otherwise deliverable on exercise of the Award or tendering Common Stock valued at Fair Market Value on the date of exercise, or any combination thereof. The Committee, in its sole discretion, shall determine acceptable methods for Participants to tender Common Stock. The Committee may provide for procedures to permit the exercise or purchase of such Awards by use of the proceeds to be received from the sale of Common Stock issuable pursuant to an Award (including cashless exercise procedures approved by the Committee involving a broker or dealer approved by the Committee). The Committee may adopt additional rules and procedures regarding the exercise of Options from time to time, provided that such rules and procedures are not inconsistent with the provisions of this Section.

Section 8

Stock Appreciation Rights

An Award may be in the form of an SAR. The Exercise Price for an SAR shall not be less than the Fair Market Value of the Common Stock on the Grant Date. The holder of a tandem SAR may elect to exercise either the Option or the SAR, but not both. The exercise period for an SAR shall extend no more than 10 years after the Grant Date. Subject to the foregoing provisions, the terms, conditions, and limitations applicable to any SAR, including, but not limited to, the term of any SAR and the date or dates upon which the SAR becomes vested and exercisable, shall be determined by the Committee; *provided, however*, that a

SAR that may be settled all or in part in shares of Common Stock shall be subject to the applicable requirements described in Section 6 hereof.

Section 9

Restricted Stock Awards

An Award may be in the form of a Restricted Stock Award. The terms, conditions and limitations applicable to any Restricted Stock Award, including, but not limited to, vesting or other restrictions, shall be determined by the Committee and subject to the applicable requirements described in Section 6 hereof.

Section 10

Restricted Stock Unit Awards

An Award may be in the form of a Restricted Stock Unit Award. The terms, conditions and limitations applicable to a Restricted Stock Unit Award, including, but not limited to, the Restriction Period and the right to Dividend Equivalents, if any, shall be determined by the Committee. Subject to the terms of this Plan, the Committee, in its sole discretion, may settle Restricted Stock Units in the form of cash or in shares of Common Stock (or in a combination thereof) equal to the value of the vested Restricted Stock Units; *provided, however*, that a Restricted Stock Unit Award that may be settled all or in part in shares of Common Stock shall be subject to the applicable requirements described in Section 6 hereof.

Section 11

Performance Unit Awards

An Award may be in the form of a Performance Unit Award. Each Performance Unit shall have an initial value that is established by the Committee on the Grant Date. Subject to the terms of this Plan, after the applicable performance period has ended, the Participant shall be entitled to receive settlement of the value of the number of Performance Units earned by the Participant over the performance period, to be determined as a function of the extent to which the corresponding performance goals have been achieved. The timing and the terms of settlement of earned Performance Units shall be as determined by the Committee and as evidenced in an Award Agreement. Subject to the terms of this Plan, the Committee, in its sole discretion, may settle earned Performance Units in the form of cash or in shares of Common Stock (or in a combination thereof) equal to the value of the earned Performance Units; *provided, however*, that a Performance Unit Award that may be settled all or in part in shares of Common Stock shall be subject to the applicable requirements described in Section 6 hereof.

Section 12

Other Stock Based Awards and Cash Awards

12.1 *Other Stock Based Awards.* Other Awards of Common Stock and other Awards that are valued in whole or in part by reference to, or are otherwise based upon or settled in, Common Stock, including (without limitation), unrestricted stock, performance units, dividend equivalents, and convertible debentures, may be granted under the Plan.

12.2 *Cash Awards.* An Award may be in the form of a Cash Award. The terms, conditions and limitations applicable to a Cash Award, including, but not limited to, vesting or other restrictions, shall be determined by the Committee.

Section 13

Performance Awards

13.1 General. Without limiting the type or number of Awards that may be made under the other provisions of this Plan, an Award may be in the form of a Performance Award. The terms, conditions and limitations applicable to an Award that is a Performance Award shall be determined by the Committee.

13.2 Nonqualified Performance Awards. Performance Awards granted to Employees that are not intended to qualify as qualified performance-based compensation under Code Section 162(m) shall be based on achievement of such Performance Goals and be subject to such terms, conditions and restrictions as the Committee or its delegate shall determine.

13.3 Qualified Performance Awards.

(a) Performance Awards granted to Employees under this Plan that are intended to qualify as qualified performance-based compensation under Code Section 162(m) shall be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective Performance Goals established by the Committee prior to the earlier to occur of (i) 90 days after the commencement of the period of service to which the Performance Goal relates; and (ii) the lapse of 25% of the period of service (as scheduled in good faith at the time the goal is established), and in any event while the outcome is substantially uncertain. For the avoidance of doubt, an Option or a Stock Appreciation Right having an exercise price equal to the Fair Market Value of a share of Common Stock on the grant date shall constitute a Performance Award that constitutes qualified-performance-based compensation under Code Section 162(m) and meets the requirements of the immediately preceding sentence.

(b) A Performance Goal is objective if a third party having knowledge of the relevant facts could determine whether the goal is met. One or more of such goals may apply to the Employee, one or more business units, divisions or sectors of the Company, or the Company as a whole, and if so desired by the Committee, by comparison with a peer group of companies including by direct reference to peers, by reference to an index, or by a similar mechanism.

(c) Performance Goals. A Performance Goal shall include one or more of the following:

- (i) contract awards;
- (ii) backlog;
- (iii) market share;
- (iv) revenue;
- (v) sales;
- (vi) days' sales outstanding;
- (vii) overhead;
- (viii) other expense management;

- (ix) operating income;
- (x) operating income margin;
- (xi) earnings (including net earnings, earnings before taxes, earnings before interest and taxes and earnings before interest, taxes, depreciation and amortization);
- (xii) earnings margin;
- (xiii) earnings per share;
- (xiv) cash flow;
- (xv) working capital;
- (xvi) book value per share;
- (xvii) improvement in capital structure;
- (xviii) credit rating;
- (xix) return on stockholders' equity;
- (xx) return on investment or return on invested capital;
- (xxi) cash flow return on investment;
- (xxii) return on assets;
- (xxiii) total stockholder return;
- (xxiv) economic profit;
- (xxv) stock price;
- (xxvi) total contract value;
- (xxvii) annual contract value; or
- (xxviii) client satisfaction.

Unless otherwise stated, a Performance Goal applicable to a Qualified Performance Award need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria).

(d) Interpretation; Code Requirements. In interpreting Plan provisions applicable to Qualified Performance Awards, it is the intent of this Plan to conform with the standards of Code Section 162(m) and

Treasury Regulation § 1.162-27(e)(2)(i), and the Committee in establishing such goals and interpreting this Plan shall be guided by such provisions. Prior to the payment of any compensation based on the achievement of Performance Goals applicable to Qualified Performance Awards, the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. For this purpose, approved minutes of the Committee meeting in which the certification is made shall be treated as such written certification. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Qualified Performance Awards made pursuant to this Plan shall be determined by the Committee.

13.4 *Adjustment of Performance Awards.* The Committee may provide in any such Performance Award in writing in advance that the results may be adjusted to include or exclude particular factors, including but not limited to any of the following events that occur during a Performance Period:

- (a) asset write-downs;
- (b) litigation or claim judgments or settlements;
- (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results;
- (d) any reorganization and restructuring programs;
- (e) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable Fiscal Year;
- (f) acquisitions or divestitures;
- (g) foreign exchange gains and losses; and
- (h) settlement of hedging activities.

Section 14

Change in Control

14.1 *General.* The provisions of this Section 14 shall, subject to Section 4.1, apply notwithstanding any other provision of this Plan to the contrary, except to the extent the Committee specifically provides otherwise in an Award Agreement.

14.2 *Impact of Change in Control.* Upon the occurrence of a Change in Control, unless otherwise provided in the applicable Award Agreement:

(a) **Treatment of Replacement Awards.**

(i) To the extent that any Award outstanding as of the date of a Change in Control is replaced by a Replacement Award (as defined in Section 14.3 below), such Award shall not vest as a result of the Change in Control, and instead shall continue to vest and become exercisable (as applicable) subject to the Participant's continued service during the remaining vesting period and the satisfaction of the other terms and conditions of the Replacement Award.

(ii) Notwithstanding the foregoing and unless otherwise determined by the Committee and set forth in the applicable Award Agreement, upon a Qualified Termination of Employment, (A) all Replacement Awards then held by such Participant shall vest in full, be free of restrictions, and be deemed to be earned in full, and (B) any Replacement Award then held by such Participant that is an Option or Stock Appreciation Right shall remain exercisable until the earlier of (I) the three-year anniversary of the Qualified Termination of Employment and (II) the expiration of the stated full term of such Option or Stock Appreciation Right. For any Stock Award that vests pursuant to this Section 14.2(a)(ii), (x) if such Award does not constitute “non-qualified deferred compensation” under Section 409A of the Code, the Award shall be settled within five days following the termination of employment and (y) if such Award constitutes “nonqualified deferred compensation” under Section 409A of the Code, the Award shall be settled pursuant to the settlement terms applicable to such Award.

(b) Treatment of Awards that are not Replaced by Replacement Awards. To the extent that any Award outstanding as of the date of a Change in Control is not replaced by a Replacement Award (as defined in Section 14.3 below):

(i) All such then-outstanding Options and Stock Appreciation Rights shall become fully vested and exercisable, and all such then-outstanding Stock Awards (other than Awards described in Section 14.2(b)(ii)) shall vest in full, be free of restrictions, and be deemed to be earned in an amount equal to the full value of such Award. For any Stock Award that vests pursuant to this Section 14.2(b)(i), (A) if such Award does not constitute “non-qualified deferred compensation” under Section 409A of the Code, the Award shall be settled within five days following the Change in Control and (B) if such Award constitutes “nonqualified deferred compensation” under Section 409A of the Code, the Award shall be settled pursuant to the settlement terms applicable to such Award.

(ii) Any such performance-based Stock Award shall be deemed to be earned in an amount equal to the product obtained by multiplying (A) the full value of such performance-based Award (with all applicable Performance Goals deemed achieved at the greater of (I) the applicable target level and (II) the level of achievement of the Performance Goals for the Award as determined by the Committee not later than the date of the Change in Control, taking into account performance through the latest date preceding the Change in Control as to which performance can, as a practical matter, be determined (but not later than the end of the applicable Performance Period)), and (B) the Applicable Pro-Ration Factor. For any Stock Award that vests pursuant to this Section 14.2(b)(ii), (x) if such Award does not constitute “non-qualified deferred compensation” under Section 409A of the Code, the Award shall be settled within five days following the Change in Control, (y) if such Award constitutes “non-qualified deferred compensation” under Section 409A of the Code and the Change in Control is a 409A CIC, the Award shall be settled within five days following the Change in Control, and (z) if such Award constitutes “nonqualified deferred compensation” under Section 409A of the Code and the Change in Control is not a 409A CIC, the Award shall be settled pursuant to the settlement terms applicable to such Award. For purposes of this Section 14.2(b)(ii), with respect to any Award covered by this Section 14.2(b)(ii), “*Applicable Pro-Ration Factor*” shall mean the quotient obtained by dividing the number of days that have elapsed during the applicable performance period through and including the date of the Change in Control by the total number of days covered by the full performance period.

(iii) Notwithstanding anything to the contrary contained in this Plan or in any Award Agreement, upon a Change in Control, the Company may settle any Awards that constitute “non-qualified deferred compensation” under Section 409A of the Code and that are not replaced by a

Replacement Award, to the extent the settlement is effectuated in accordance with Treasury Reg. § 1.409A-3(j)(ix)).

14.3 Replacement Awards. An Award shall qualify as a “*Replacement Award*” if: (a) it is of the same type as the Award intended to be replaced by the Replacement Award (the “*Replaced Award*”); (b) it has a value equal to the value of the Replaced Award as of the date of the Change in Control, as determined by the Committee in its sole discretion consistent with 4.1; (c) the underlying Replaced Award was an equity-based Award, it relates to publicly traded equity securities of the Company or the entity surviving the Company (or such surviving entity’s parent) following the Change in Control; (d) it contains terms relating to vesting (including with respect to a termination of employment) that are substantially identical to those of the Replaced Award; and (e) its other terms and conditions are not less favorable to the Participant than the terms and conditions of the Replaced Award (including the provisions that would apply in the event of a subsequent Change in Control) as of the date of the Change in Control. Without limiting the generality of the foregoing, a Replacement Award may take the form of a continuation of the applicable Replaced Award if the requirements of the preceding sentence are satisfied. The determination whether the conditions of this Section 14.3 are satisfied shall be made by the Committee, as constituted immediately before the Change in Control, in its sole discretion.

14.4 Certain Outstanding Awards. For the avoidance of doubt, each Award granted prior to the amendment of the Plan effective as of July 31, 2019 and outstanding thereafter shall be subject to the applicable provisions of Section 14 of the Plan as in effect immediately before such date and the terms and conditions of the applicable Award Agreement.

14.5 Definition of Change in Control. Except as otherwise may be provided in an applicable Award Agreement, for purposes of the Plan, a “*Change in Control*” shall mean any of the following events:

(a) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “*Person*”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then-outstanding shares of Common Stock (the “*Outstanding Company Common Stock*”) or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “*Outstanding Company Voting Securities*”); excluding, however, the following: (A) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted itself was acquired directly from the Company, (B) any repurchase by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company, or (D) any acquisition pursuant to a transaction that complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 14.5; or

(b) A change in the composition of the Board such that the individuals who, as of the Effective Date of the Plan, constitute the Board (such Board shall be hereinafter referred to as the “*Incumbent Board*”) cease for any reason to constitute at least a majority of the Board; *provided, however*, that, for purposes of this Section 14.5(b), any individual who becomes a member of the Board subsequent to the Effective Date of the Plan, whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

(c) The consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “*Business Combination*”); excluding, however, such a Business Combination pursuant to which (i) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination will beneficially own, directly or indirectly, more than 50% of, respectively, the outstanding shares of common stock, and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) will beneficially own, directly or indirectly, 30% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership derives from ownership of a 30% or more interest in the Outstanding Company Common Stock and/or Outstanding Company Voting Securities that existed prior to the Business Combination, and (iii) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Business Combination; or

(d) The approval by stockholders of a complete liquidation or dissolution of the Company.

Section 15

Taxes

The Company shall have the right to deduct applicable taxes from any Award payment and withhold, at the time of delivery or vesting of cash or shares of Common Stock under this Plan, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of required withholding taxes or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes. The Committee may also permit withholding to be satisfied by the transfer to the Company of shares of Common Stock theretofore owned by the holder of the Award with respect to which withholding is required. If shares of Common Stock are used to satisfy tax withholding, such shares shall be valued based on the Fair Market Value when the tax withholding is required to be made.

Section 16

Term, Amendment And Termination

(a) Effectiveness. The Plan shall be effective as of May 16, 2016 (the “Effective Date”).

(b) Termination. The Plan will terminate on the tenth anniversary of the Effective Date. Awards outstanding as of such date shall not be affected or impaired by the termination of the Plan.

(c) Amendment of Plan. The Board may amend, alter, or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would materially impair the rights of the Participant with respect to a previously granted Award without such Participant’s consent, except such an amendment made to comply with applicable law (including without limitation Section 409A of the Code), stock exchange rules

or accounting rules. In addition, no amendment shall be made without the approval of the Company's stockholders to the extent such approval is required by applicable law or the listing standards of the New York Stock Exchange or such other securities exchange as may at the applicable time be the principal market for the Common Stock.

(d) Amendment of Awards. Subject to Section 5.4, the Committee may unilaterally amend the terms of any Award theretofore granted, but no such amendment shall, without the Participant's consent, materially impair the rights of any Participant with respect to an Award, except such an amendment made to cause the Plan or Award to comply with applicable law, stock exchange rules or accounting rules.

Section 17 **Assignability**

Unless otherwise determined by the Committee and expressly provided for in an Award Agreement, no Award or any other benefit under this Plan shall be assignable or otherwise transferable except (1) by will or the laws of descent and distribution or (2) pursuant to a domestic relations order issued by a court of competent jurisdiction that is not contrary to the terms and conditions of this Plan or applicable Award and in a form acceptable to the Committee. The Committee may prescribe and include in applicable Award Agreements other restrictions on transfer. Any attempted assignment of an Award or any other benefit under this Plan in violation of this Section 17 shall be null and void. Notwithstanding the foregoing, no Award may be transferred for value or consideration.

Section 18 **Restrictions**

No Common Stock or other form of payment shall be issued with respect to any Award unless the Company shall be satisfied based on the advice of its counsel that such issuance will be in compliance with applicable federal and state securities laws. Certificates evidencing shares of Common Stock delivered under this Plan (to the extent that such shares are so evidenced) may be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Committee may cause a legend or legends to be placed upon such certificates (if any) to make appropriate reference to such restrictions.

Section 19 **Unfunded Plan**

This Plan is unfunded. Although bookkeeping accounts may be established with respect to Participants who are entitled to cash, Common Stock or rights thereto under this Plan, any such accounts shall be used merely as a bookkeeping convenience. The Company shall not be required to segregate any assets that may at any time be represented by cash, Common Stock or rights thereto, nor shall this Plan be construed as providing for such segregation, nor shall the Company, the Board or the Committee be deemed to be a trustee of any cash, Common Stock or rights thereto to be granted under this Plan. Any liability or obligation of the Company to any Participant with respect to an Award of cash, Common Stock or rights thereto under this Plan shall be based solely upon any contractual obligations that may be created by this Plan and any Award Agreement, and no such liability or obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company. None of the Company, the Board or the Committee shall be required to give any security or bond for the performance of any obligation that may be created by

this Plan. With respect to this Plan and any Awards granted hereunder, Participants are general and unsecured creditors of the Company and have no rights or claims except as otherwise provided in this Plan or any applicable Award Agreement.

Section 20

Code Section 409A

20.1 Awards. Awards made under this Plan are intended to comply with or be exempt from Code Section 409A, and ambiguous provisions hereof, if any, shall be construed and interpreted in a manner consistent with such intent. No payment, benefit or consideration shall be substituted for an Award if such action would result in the imposition of taxes under Code Section 409A. Notwithstanding anything in this Plan to the contrary, if any Plan provision or Award under this Plan would result in the imposition of an additional tax under Code Section 409A, that Plan provision or Award shall be reformed, to the extent permissible under Code Section 409A, to avoid imposition of the additional tax, and no such action shall be deemed to adversely affect the Participant's rights to an Award; provided that this Section 20.1 shall not require the Company to incur any costs other than administrative costs.

20.2 Settlement Period. Unless the Committee provides otherwise in an Award Agreement, each Restricted Stock Unit Award, Performance Unit Award or Cash Award (or portion thereof if the Award is subject to a vesting schedule) shall be settled no later than the 15th day of the third month after the end of the first calendar year in which the Award (or such portion thereof) is no longer subject to a "substantial risk of forfeiture" within the meaning of Code Section 409A. If the Committee determines that a Restricted Stock Unit Award, Performance Unit Award or Cash Award is intended to be subject to Code Section 409A, the applicable Award Agreement shall include terms that are designed to satisfy the requirements of Code Section 409A.

20.3 Specified Employees. If the Participant is identified by the Company as a "specified employee" within the meaning of Code Section 409A(a)(2)(B)(i) on the date on which the Participant has a "separation from service" (other than due to death) within the meaning of Treasury Regulation § 1.409A-1(h), any Award payable or settled on account of a separation from service that is deferred compensation subject to Code Section 409A shall be paid or settled on the earliest of (i) the first business day following the expiration of six months from the Participant's separation from service, (ii) the date of the Participant's death, or (iii) such earlier date as complies with the requirements of Code Section 409A.

Section 21

Awards to Non-U.S. Employees

Awards may be granted to Employees who are foreign nationals or employed outside the United States, or both, on such terms and conditions different from those applicable to Awards to Employees employed in the United States as may, in the judgment of the Committee, be necessary or desirable in order to recognize differences in local law or tax policy. The Committee also may impose conditions on the exercise or vesting of Awards in order to minimize the Company's obligation with respect to tax equalization for Employees on assignments outside their home country.

Section 22
Governing Law

This Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by mandatory provisions of the Code or the securities laws of the United States, shall be governed by and construed in accordance with the laws of the State of Delaware.

Section 23
Right to Continued Service or Employment

Nothing in this Plan or an Award Agreement shall interfere with or limit in any way the right of the Company or any of its Subsidiaries to terminate any Participant's employment or other service relationship with the Company or its Subsidiaries at any time, nor confer upon any Participant any right to continue in the capacity in which he is employed or otherwise serves the Company or its Subsidiaries.

Section 24
Usage

Words used in this Plan in the singular shall include the plural and in the plural the singular, and the gender of words used shall be construed to include whichever may be appropriate under any particular circumstances of the masculine, feminine or neutral genders.

Section 25
Employee Matters Agreement

Notwithstanding anything in this Plan to the contrary, to the extent that the terms of this Plan are inconsistent with the terms of an Adjusted Award, the terms of the Adjusted Award shall be governed by the Employee Matters Agreement, the applicable Parent Long-Term Incentive Plan and the award agreement granted thereunder.

Section 26
Headings

The headings in this Plan are inserted for convenience of reference only and shall not affect the meaning or interpretation of this Plan.

1. I have reviewed this report on Form 10-Q of Ingevity Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /S/ D. MICHAEL WILSON
D. Michael Wilson
President and Chief Executive Officer

1. I have reviewed this report on Form 10-Q of Ingevity Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Executive Vice President, Chief Financial Officer & Treasurer

**Certification of CEO Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

I, D. Michael Wilson, President and Chief Executive Officer of Ingevity Corporation (“the Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, based on my knowledge that:

1. the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 29, 2019

/S/ D. MICHAEL WILSON

D. Michael Wilson
President and Chief Executive Officer

**Certification of CFO Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

I, John C. Fortson, Executive Vice President and Chief Financial Officer of Ingevity Corporation (“the Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, based on my knowledge that:

1. the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 29, 2019

/S/ JOHN C. FORTSON

John C. Fortson
Executive Vice President, Chief Financial Officer & Treasurer